DECEMBER, 1931

AMERICAN BANKERS Association JOURNAL

THE SPIRITUAL TOUCH

Cover Story on Page V

The Spiritual Touch

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

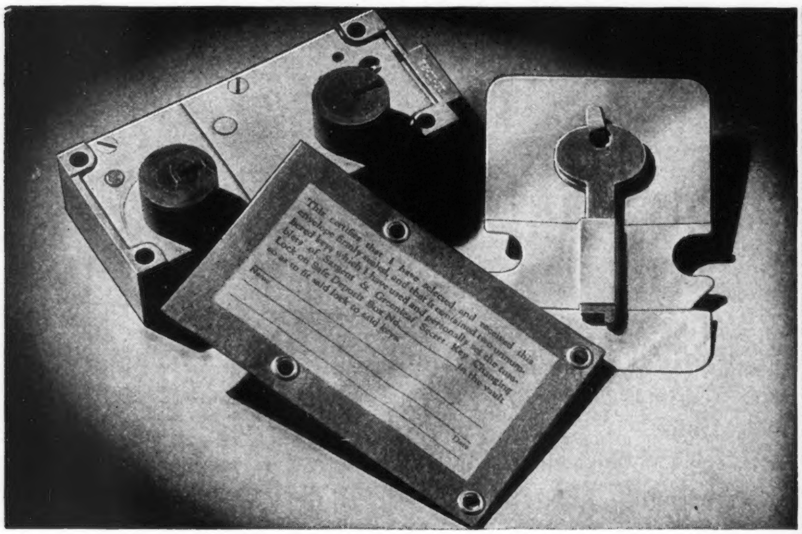
SOME banks have Christmas trees in their counting rooms. All banks have certain effects of Christmas trees in their transactions.

Even if it would, there is no bank in the land that could escape the beneficent influence of the spiritual touch on its affairs. Seasonal business, they call it in their reports—almost it sometimes seems as though there were something unbusinesslike in acknowledging the healthy influence of a higher power upon all commerce. So seasonal business, let it stand, but, slow as business is, what a stopped world this would be without that touch which performs miracles in the fields season after season; that produces the state of mind called confidence; that with equal certainty moves both clay and human hearts and gives as a by-product (and only a by-product) the commercial activity we cherish so highly, and call business.

Seasonal business! Even the most calloused knows in his heart the first cause of the conditions described by those two words. Why evade acknowledgment of a fact so obvious, so well known? Seasonal business is the response to the spiritual touch which the whole world is feeling in this last month of the year of our Lord 1931.

Blessings, it is often said, sometimes come in disguise and circumstances and events must be seen in retrospect to be evaluated correctly. Out of these strange times, good things are coming. Have they not already given us a new insight into the human heart and a new measure of the generosity of mankind for the unfortunate ones?

THEY are revealing to us that the business man does not forget his humanities, and, when all the perplexities of this period have passed on and better times are with us again, it is not unlikely that we may look back and realize that out of this period the world derived something stronger and better in our national character than any new high record of sales that ever was recorded during the hectic days.



This Month's Journal
and
Your Own Bank

THE European question, close as it has been since 1914, day by day draws nearer to our homes as well as our business. We can neither evade it nor deny it, nor often realize how positively it acts and reacts upon even the most remote places in our nation, upon even the most sequestered of lives.

The quotations on foreign bonds are, of course, eloquent, but they do not tell the whole story. Back of each and every bond listing, there is the history of a whole nation, and, though there is a good span of years between the World War and the present, history is still white-hot in the making. Economic forces are heating and forging and welding things anew and all of this has to do with our own welfare. There, for instance, is England which has just taken the first step in a new tariff, the adverse effects of which will—whether or not he realizes it—be felt by many an industrial worker in America; there was the recent attack on the dollar started in England, and felt in Poland, Switzerland and especially in France; there is Germany with not one crisis but two crises and both of them having their repercussions on our own affairs. There is the attitude of many people over there to hold America responsible for the economic ills of the world.

In view of this condition, changing as it is from day to day, there is presented in this issue, in articles written in England, France and Germany, our own interpretation of conditions on the other side, based on conversations with bankers, economists, business men and experienced students of current events.

The purpose of these articles is not mere criticism, for criticism is easy and wisdom after the fact is the common property of everyone everywhere, but the purpose is to present facts and impressions that may help to an understanding of predominant trends in overseas affairs that have changed, and will for years to come continue to change the very course of our history and our business affairs.

DR. WALTER E. SPAHR, in an article called "Money without Gold," says that bimetallism is dead beyond recall. "We are witnessing," he writes, "a recurrence of the usual crop of ideas as to what should be done in lieu of reestablishing the gold standard as well as the usual crop of articles by those legerdemainists who readily convert their hindsight into foresight and are saying with so much self-complacency that they foresaw just these things happening and therefore are entitled to tell how to correct the difficulties." In addition to pointing out some highly valuable conclusions, Dr. Spahr includes in this article (1) a compact chronology of the buffetings received by the gold standard during the last ten weeks; (2) a crisp, new definition of the gold standard; (3) several good reasons why gold commands universal confidence, and (4) why its prestige is likely to continue.

H. N. STRONCK wrote an article for the November JOURNAL on how to make a bank's investment program fit its particular requirements. He follows in this issue with a "Recipe for Safe Loans," and here again stresses the point that there can be no single, complete rule for safety and liquidity applicable to all banks regardless of size, season or locality. The first step, says the writer, is to find out what class of loans best meet the peculiar needs under which the bank must operate. Without this information a bank is groping in the dark. The purpose of the article is to provide a workable method for measuring accurately the requirements of an institution, both with reference to the character of its deposits and the types of loans available. The author believes that an intensive method of loan analysis and loan control is possible in any bank regardless of size. He says that the indi-

vidual or group exercising the function of controller of loans, should be entirely divorced from the making of loans. The controller's task is to follow through.

IN "Deficits Compel Tax Revision" Morris Edwards states that Congress will be obliged, in spite of political considerations, to revise taxes upward. The only remaining uncertainty, he believes, is the form that such revision will take. By the end of next June the Treasury deficit may be as much as $2,000,000,000, and the Government cannot continue forever borrowing on short term notes, because the volume of such obligations outstanding has already become unwieldy. Mr. Edwards sees a prospect of Congress meeting in something of a quandary, with politics and hard facts competing for the floor and party leaders wistfully seeking some way to banish the tax question from sight. He includes a brief outline of efforts made during the past year to cut down Federal expenditures; the difficulty being that a large part of the nation's running expenses are inflexible and beyond the reach of any economy efforts of the Administration.

D. RICHARD YOUNG draws a full length picture of the automobile industry. He finds widespread confidence among leaders of the industry that next year will bring an appreciable amount of recovery and that 1933 will see production mounting back up toward peak levels. Ninety-five per cent of the growth in motor car manufacturing has come since 1914 and in the last decade alone, says Mr. Young, the net aggregate income of those companies which reported such income, totalled almost $3,000,000,000. Youthful as the industry is, in point of years, it is already subject to definitely established trends and cycles. One of these is a three-year pulsation in output, a phenomenon which has occurred with impressive regularity. The last top was reached in 1929 and, according to the three-year reckoning, the next should be in 1932. It is now generally conceded, however, that in view of the dimensions of the current depression, the previous production record is not likely to be exceeded until 1933 or 1934.

JOSEPH STAGG LAWRENCE tells what the gold standard is and is not. He listens to the friends of gold, then to the arguments of those who insist that the ancient metallic standard of value is an anachronism, under conditions prevailing in the twentieth century. He cites the reasoning of present day prophets who have convinced themselves that gold is a barbaric relic and who feel that the quickest way back to prosperity is to discard it for something else, no matter what. Bankers, in general, he says, are aligned on the side of gold because of its long and excellent record and because of the "mantle of protection" it throws over equities and obligations. The author urges that the

history of gold as a successful standard should be given full weight before any move is made to embrace some other medium which can have had no more than a theoretical trial.

GEORGE E. ANDERSON describes the outlook for legislation by Congress affecting banks. One thing is certain. Banking and business generally will be coaxed this winter to take various kinds of legislative treatment, each remedy fully guaranteed. Complications enter into the present economic situation for which there does not appear to be any exact precedent. There is an abundance of credit and every effort has been made to keep money cheap and available for financing the country's business, yet there has been a steady decline in the volume of bank loans. Most of the bills on banking now before Congress, states the writer, and most of the informal discussion in Congressional circles, have to do with finding some way out of this dilemma.

ON November 25, the Committee on Bank Reserves of the Federal Reserve System, submitted a report to the Federal Reserve Board recommending important changes in the methods of calculating reserves. An excellent summary of this report, emphasizing its principal suggestions, is found in the article by A. G. Everett under the title, "Reserves and Credit Control." A resolution adopted by a conference of the governors of the Federal Reserve banks in December, 1929, stated that the purpose of the committee was to draft "a report to the Federal Reserve Board proposing such amendments to the law or regulations as in their judgment may be necessary to remove any present inequalities or defects and to establish bank reserves throughout the country on a more logical or effective basis than now appears possible under present laws, State and Federal." The committee's report raises questions of such vital importance to the financial structure of the nation that it behooves every banker to acquaint himself thoroughly with the facts. In preparing its recommendations the committee obtained and gave consideration to the views of bankers as expressed through representatives of the American Bankers Association and the Association of Reserve City Bankers.

IN effect the committee based its recommendations on a fairly new conception of the nature of bank reserves. Instead of considering them merely as a measure of a bank's liquidity, reserves would be regarded as a vital force in the financial life of the country and would bear at all times a direct relationship to the volume of business. They would be based largely on the velocity of turnover and not on the net amount of deposits nor on whether deposits were demand or time funds. As activity increased, reserve requirements would be augmented accordingly, and the result would be, says the committee's report, something in the nature of automatic control preventing unhealthy expansion.

AMERICAN BANKERS ASSOCIATION JOURNAL

Can We Evade These Influences?

By JAMES E. CLARK

LONDON.

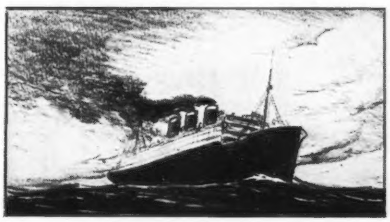
WOODROW WILSON sought to raise above the nations a super-government, by the functioning of which all the political and economic ills of the world might be cured. He came back from the long-drawn-out conference in the making of a treaty to end the World War, with the League of Nations project interwoven into the treaty of peace so closely that he felt the two could not be separated.

But American public opinion, at first caught by the idea, soon turned against it. The Senate, reflecting public opinion, refused to put the United States into the League of Nations. Mr. Wilson was chagrined over the refusal of the Senate to confirm the pact, and died a disappointed man.

But in the years which have followed, there has come about as close a relationship between a number of the overseas nations and the United States as Mr. Wilson and his colleagues had planned—not on the basis that he envisioned and not yet functioning in its entirety through the League, but nevertheless a drawing together that is startling in its completeness and astonishing in its mischievous possibilities as far as business is concerned.

Attack on the Dollar

CAPITAL, banking, investment, have brought the peoples on the two sides of the Atlantic close together. Experience, diplomacy and



shrewd bargaining on the one side, an abundance of capital, an over-anxiety to put capital to work coupled with a certain ineptitude in international diplomacy on the other side, have made Europe's business troubles America's business troubles. Henceforth, and probably forevermore as the trans-Atlantic nations prosper, there will be reflected upon us the warm glow that is a part of prosperity, and as clouds gather over Great Britain and Europe, we too will feel the chill in the air. We had a startling example of this when England went off the gold standard and the integrity of the dollar was attacked.

No longer may we hang our business thermometer where it will be free from the influences from abroad. In some time to come that may be a good state of affairs, but from the prospects in this fall of 1931, the outlook is not encouraging for those who have steadfastly believed that Washington's advice to avoid entangling European alliances was good advice.

Washington may not have foreseen entanglements by bonds forged through credit, but if he did foresee such an entanglement, he was indeed a wise man if he gauged the tensile strength of the financial strands.

Our isolation has ended, but our provincialism has not gone with it—that is to say we are involved in Europe's never-ending politico-economic game (in which one may be pardoned for wondering if the dice are always loaded), but we are not experienced players.

Recall in this connection that after the war we were told by many people and in many ways, that unless America came to the aid of Europe with capital, civilization in Europe would break down—that mankind would be set back hundreds of years, whereas if we did extend financial aid the nations of Europe could resume—could pursue the even tenor of their ways, as if they had, by and large, ever had an evenness worth mentioning—and could then purchase from us and we from them, and all would be the better for our aid.

So We Began

AFTER a season of that kind of statement, the loaning began and was from time to time kept up, first because there was need for loans with which the war-worn nations could rehabilitate themselves, and at other times because we had such an abundance of capital that to take a loan from us sometimes seemed to partake of the nature of a favor.

In this latter period of investment we were at a shocking disadvantage because it is true the world over that

the one who is going to get the best of a bargain is generally settled in advance. The party most anxious to make the deal is pretty sure to have the scales tilt against him. In recent years American money has been the anxious party, and our anxiety true to the rule has not worked to our advantage. The extent of that anxiety and the extent of the disadvantage to us may be measured by the daily quotations of foreign bonds in the New York market!

And that brings us by another path back to a consideration of our new position with relation to the rest of the world. When it was the fashion for American writers and speakers to dwell upon the fact that we had become a creditor nation—that New York was the financial capital of the world, the average audience no doubt had a master-of-all-we-survey complex, over our new power. But the master survey has diminished greatly, from the home point of view, and a survey from Europe's side suggests that, what from a distance seemed to be green pastures and still waters, are more in the nature of wild lands.

Though the United States went to the aid of the Allies in the War, went to the aid of Germany after the war, and has given financial aid to both sides since then, the end is not yet, and with all our loaning and giving a man may be forgiven for sometimes wondering if we have even added to our friendships.

They Hold Us Responsible

IN the economic discussions in England today, one listens in vain for any reference to our coming to the aid of the Allies; what he may hear early in any conversation, is that we are responsible for the world depression! In England, one will be candidly told, in the most matter of fact way, that America has mismanaged the gold, that it has held it and sterilized it and dried up trade. Our tariff law seems to be regarded in England as a piece of indisputable documentary evidence against us. The adjective protective that was used in formulating it and that has been inseparable from the word in America, has a too literal meaning abroad now.

"You loaned us money" said a very intelligent Englishman, "and then you put up your tariffs so that we could not pay you in goods!"

The man quoted in the foregoing did not know and was surprised when I told him that the American protective tariff, which is so obnoxious in England, was not so high in point of money collected as is that of so-called free-trade England. Here are the figures, taken on both sides from official documents:

Great Britain annually collects in

tariff £120,000,000 which, before the fall of the pound, worked out to $583,000,000.

The United States annually collects in tariffs about $580,000,000—a difference in favor of Great Britain.

Incredible, therefore, as it seems, free-trade England receives more money from customs than does the protected United States, and public opinion in England has come to the conclusion that one way out of the depression is to create a new and a higher tariff, which will at once add to her revenues on the one hand, and keep foreign manufactured goods out of the country to the advantage of home goods.

Two Years in the Making

WHEN England completes her protective tariff, she will make it more difficult for the United States to sell some items than at present, although raw materials of which she has need and of which cotton is a convenient example are, it is assumed, to be excepted. But a permanent tariff she will have—the enactment of Nov. 25 being but a beginning—and while Belgium and Germany may feel it more heavily than America we too will be affected. It has been in the making a long time. For two years, it is said here, the Conservative Party has had an organization engaged in forming the basis of the tariff law.

Therefore the tariff schedule which became effective last month is not merely a hasty impulse; emergency measure though it is in some quarters considered to be; and now that England has embarked on the business of tariff protection, more seasoned important restrictions may follow in due course. That the perfected tariff wall presents new difficulties to American export business seems to be plain. Tariffs are, however, not always 100 per cent effective, and to retain a volume of business America, in the opinion of expert authority, would do well to concentrate on those manufactured articles in which her efficiency has reached its highest stage. There are some things which will go over the top, no matter how high the wall, for at least a part of the British public will continue to want them.

There is, to illustrate, an historical incident that is interesting just here. About 1840 or 1845 there was produced at Dacca, in Bengal, a mulle of such entrancing fineness that it was in high favor with the ultimate consumers in England, but not in the same favor with English manufacturers who could not produce a fabric of the same fineness. A very high import duty levied against it proved to be ineffective, for its excellence still commanded the additional price. The tariff failed so completely that drastic measures were taken to lessen the supply at its source.

"Not a Common Loan"

THERE is a feeling in certain groups in London that already the war debts are as good as cancelled. They will tell you that the world cannot pay—that as long as the world cannot pay, it would be better to wipe the debts off and begin anew. Here then it seems that in the war debts we have the same old story that was referred to in the beginning—the United States must make loans to Europe in order that Europe may keep going. That the United States has done, and now at last it must cancel the war debts, which is in effect the equivalent of making another and still greater loan in which all of the Allies are to participate. The war debts, we are told on this side of the Atlantic, are different from other debts. "You would not," observed a prominent Briton, "regard a loan from a father to a son as a common debt."

In almost every place our gold comes into the conversation as a scapegoat. The sight of a ship discharg-

ing a consignment of gold in a French harbor produces various reactions among the passengers gathered at the rail. One rueful comment, by a German arriving at Cherbourg on a German ship, is repeated for such interpretations as readers may make. It was this: "Gold for France! She does not need it, she has too much now!" And of no significance or of much significance, all according to the point of view, is the fact that this German ship with the cargo of gold for France passed in mid-ocean the "Ile-de-France," bearing Premier Laval to America to discuss with President Hoover the world financial situation, which, in effect, may reasonably be translated to mean a cutting down of debts.

Will England Come Back?

WILL England come back? And when will she come back? are questions which come up in almost every discussion, outside of England. One does not have to turn many pages of English history to find dark periods from which these stout-hearted people planned and worked and fought their way out. That much is encouraging, but a changed world, a machine world, a world in which so much has been sought out, makes comparisons difficult. If she, like ourselves, could collect what is owed to her, the answer might be different. Roughly, she has £160,000,000 in Germany; £572,000,000 in Australia; £897,000,000 in South America. The prospect for the recovery of the first two items is not bright. A part of the third item is good, but how much is good is still to be determined. Those losses operate against speedy recovery. And it is a curious thing in this bewildered world, that while it is pointed out that these losses—if losses they turn out to be—are very bad for England, that they operate against her economic recovery, it is asserted at the same time that if the United States cancels its war debts, or extends the moratorium, that act will be good for us as well as for the rest of the world!

Will England come back? There is another and a better answer. She started to come back as soon as she went off the gold standard. Within forty-eight hours of that momentous decision, one manufacturer reported that he had received more orders for goods than he had received in the previous two years.

"For the first time in six years, the manufacturer is getting a chance," said one English observer. "When we went on the gold standard in 1925, he was crucified; now he has a chance. Going off the gold standard was as good as a 20 per cent tariff to him."

The change that set in over industrial England following the abandonment of the gold standard was magical. The resumption of business in the industrial lines is seemingly without parallel. From many centers, there were reports of workers being called back by hundreds, and even thousands. Coal exports are resuming on an encouraging scale, and the Chinese boycott of Japanese goods adds to the English business stimulus.

England has had its experience with Socialism and has said, "Good-bye to all that!"

Foreign Branches

ALL of England is getting satisfaction out of the fact that many concerns in other countries are making inquiries, looking toward the pur-

chase of factories. These inquiries come from manufacturers in other countries for whom England was a good market as the tariff stood before Nov. 25. They see themselves excluded by the proposed tariff and to save their market they propose to erect plants in England on the safe side of the tariff wall. While no one makes any concealment of the fact that business has been blighted there is nevertheless a new hope springing up, based on substantial things. The whole country feels that the clouds have lifted.

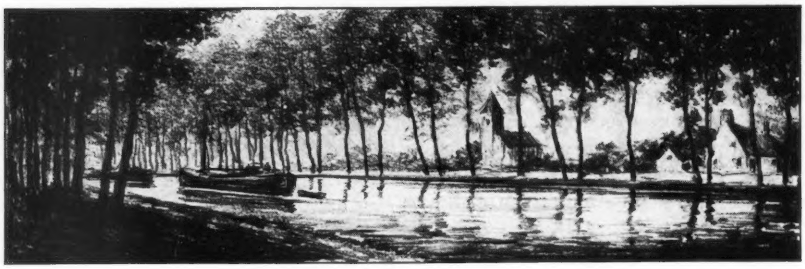
Drive Against Dollar

AT this writing, there was being discussed, not widely, but among small groups of observers, the possibility of the United States going off the gold standard—not that these intelligent gentlemen wish to see such an event, for they know that such a possibility would not be to their advantage, nor even that they *thought* it would—but if holders of dollar securities could be frightened enough to sell and bring their money home why that would help the pound and all things pertaining thereto. One reason for including that in the range of possibilities was the reports of hoarding by individual Americans, the belief being that wherever Americans hoard, it is gold.

Many people in England do not understand that the average American, if he hoards money, is satisfied with paper money, as a rule making little distinction between our different kinds of paper money—gold notes, silver certificates, Federal Reserve notes, national bank notes, etc. For instance, a Treasury gold note certifies that "there has been deposited in the United States Treasury" the amount named on the bill, and that it is payable "on demand," whereas the pound note says "The Bank of England promise to pay the Bearer on demand the sum of One Pound."

The drive against the dollar in England, Switzerland, Germany, Poland and France would have been a strange chapter in international history under any circumstances and in almost any time, but after all the help in men and treasure to Europe, after the moratorium, after the years of sincere effort to go to the limit to bring peace and prosperity to the world, who now can avoid the conclusion that Washington was right when he bade his country to keep aloof!

We could perhaps be happy if we could regard this drive as a strange comet that came out of the mysterious universe and will never return, but can we?



Why France is Strong

PARIS

IF loyal Americans felt a sense of injury in October when there was a smart selling of dollars in Paris and a questioning of dollar stability that Americans regarded as mortifying and unnecessary, they may, looking at the situation in retrospect, feel less aggrieved if they consider the position in which the French found themselves.

Cable News

FIRST, the cables had with great regularity been reporting from America the failure of banks. A bank in Europe is almost invariably a great institution. Not all of Great Britain and of Europe understands our system of many units, and so many of them small units. Furthermore, in Europe as at home the failure of a bank is reported as if everything were lost. Even many bankers on this side have been surprised when told that the average net loss of national banks which have suspended was over a ten-year period but 15 per cent.

Second, through efforts to relieve it, the depression has been overplayed and our discussion of the depression is one thing in America and another thing abroad. The frank and full discussion of the perplexities of a corporation in meetings of the board of directors is proper but consider the effect if those discussions are given to the public. Confidence is impaired, credit and prestige are lost, business competitors will not minimize the situation and clouds gather. Well, that is about what the talking and the curing of the depression has done for us in the minds of foreigners. Its by-product has been vicious. Moreover, many Americans have come over here and glibly discussed depression as if it all were to our credit, and so the thing has gone on gathering momentum as it goes. Everyone coming over will talk on unemployment as if that were all we had in America. How much better it would be for American prestige abroad and for American confidence at home if there were more talk about the 42,000,000 people that we have employed!

Third, the Bank of the United States' failure had its vicious repercussions even among people who know that it was not the nation's bank and among those in other circles even now the misapprehension probably prevails in many parts of Europe. That bank had representation in Poland and its failure put a big dent in our armor over there.

Fourth, when England went off the gold standard, France lost heavily. "As good as the Bank of England," is an expression familiar for many years over Europe, and that 20 per cent of the pound should be wiped out at one fell swoop was a shock from which the world will not soon recover. The Bank of France is said to have lost the equivalent of its capital and surplus by the repeal of England's gold law. The bank's statement now carries a footnote to the effect that foreign securities are carried at par! If these securities were scaled down the figures would be radically different.

When, therefore, after thus losing heavily on the pound, fear found easy victims in many persons when an English publisher ruthlessly began to advise people to bring their money home. From England the tremor of fear spread to the continent and was nasty while it lasted, but it is all over now.

Came Out of Hiding

THE Polish people always have hoarded American currency. To many of them it has been the money par excellence. When the drive on the dollar began in Poland this money came out of hiding in huge quantities and the money changers made handsome profits buying good American dollars at heavy discounts and paying for them in native currency. It was a harvest for some while it lasted, for they were able to make good profits quickly and with no risk and very little trouble. The extent of the drive on the American dollar in Poland may be judged from the fact that in one day one bank in Switzerland received between $2,000,000 and $3,000,000 in American currency from Warsaw—money that had been frightened out of its hiding places, by wrongful methods!

The scare did not last long, but like a run on a bank, however short, it was all too long. American interests could during that drive have been helped materially by more facts of a tangible, understandable kind to throw into the stream of public opinion.

Profits in Poland

THE scare is over, but as some profits were made by the ruse while it lasted—especially in Poland—it is within the realms of possible things that when opportunity again offers for a stampede, the game may be played again. The time to nip that is now—not after it starts. As long as the world remains in its present upset condition, there is an opportunity always for the "unexpected" to happen. Starting with the closing of the New York Stock Exchange in 1914 to prevent the dumping of securities and the destruction of values by panicky people in Europe, America has received one shock after another from Europe. As we may reasonably expect this to continue, a consideration of means to minimize these shocks abroad may well be in order—as a safeguard against future contingencies.

Economically, France is in a good position, but economically still France has not escaped the world depression, but has had and is having its share. It cannot accurately be said that France has grown strong while the rest of the world has become depressed, for there are obvious signs on all hands of the world-wide condition. The hotels are literally yawning for tourists or, in fact, for any guests and the tourist business is a big item in France; American buyers complain that there is a dearth of new things to show; that important establishments manufacturing for the fine trade of milady have run down to mere nothings in production. (In the midst of it all came the discovery that

the labels of well-known houses had been counterfeited and sold for affixation to any garment that might fool the public.)

But, though France feels the depression, she has in many ways retained an economic virility, the causes of which should at this time be thought about.

In many respects the national life of France is the antithesis of the national life of the United States. The average French family is thrifty to a parsimonious degree. The effort is to see how much may be saved. In too many American families the effort is to see how much may be spent. A farmer in France can see economy in picking up twigs with a diameter no greater than a lead pencil and carefully tying them into bundles; his counterpart in America sees economy in buying more acres, and making an investment in farm machinery. Neither is to be criticized for what he does. Each is affected in a large degree by his environment. Each has a certain vision of the future. The one plan has its advantages in times of prosperity; the other in adversity. In the present world condition the miserly French farmer cannot be hurt as much as his American brothers, for there is no comparison as to the standard of living of each. The American looking at the Frenchman's way of living might disdainfully say, "But who wants to live that way!" And the Frenchman looking at the plight of the American farmer burdened with debt and in danger of losing his all, might with equal honesty and indignation say, "But who wants to live that way!" "It is the penurious, miserly French farmer who has made France the strong nation that it is today!" said a Berlin banker to me. "My people are industrious and thrifty, but they have in late years been misled by Socialistic ideas; now they are disillusioned and if we are given a chance will work back again." Grinding, apple-paring, twig-picking economy is not a glorious background, but in times of stress there is a certain strength in it that cannot be denied however drab and small it may appear in the American age of multiple bath tubs and multiple motors.

There is no need of preaching diversification to the French farmer, for he takes to it naturally. Premier Laval some weeks ago attributed the present economic strength of France to the diversification of its farms. But there is something else that Mr. Laval did not mention:

Effective Help for Farmers

When Tardieu became Minister of Agriculture he had in mind a plan for the betterment of the French farmers. The Minister of Agriculture has the power with the consent of the Premier and the Minister of Finance to increase the tariff on certain classes of imports and from time to time Tardieu has exercised that power for the benefit of the farmer. He also has power in case of necessity to place a limitation on imports and with that lever he is also able to improve the position of the French farmer. Obviously this has added to the cost of living of the industrial class, for they must buy what the farmer sells! In turn, wages of many in the industrial class are from time to time determined from the cost of living index. However much or little merit in promoting justice and equality all this may have, let us not lose sight of the fact that it is the inherent economy of the race which is now their strength.

But for all of that, the prosperity of France, as has been indicated in the foregoing, has been going down for months though gold has been going into France in a steady stream, and in that word "gold" we come upon the thing which this mad world has now set upon to give expression to its hopes and fears.

Mention gold in England and an economist will tell you how America has "mismanaged" the vast store of gold it controlled, but as France with its gold is in a comparable position, criticism of our gold policy would be a two-edged sword, yet as everyone knows we come in for criticism—friendly though it is from our French friends—because of the moratorium.

"A noble idea," exclaimed a Frenchman, "but a mess was made of it by including in it the unconditional payments. France was surprised and perhaps a little hurt at first. We said we would have to think about it, and that spoiled the effect. The manner in which the moratorium was proposed has changed the German attitude. I have had Germans sit in that chair and say, 'Why should we pay now; you cannot help yourselves; Mr. Hoover says we need not pay!'"

One thing that bothers bankers abroad is how the number of bank failures that America has had could occur as long as we have bank examination systems, and I record it only to reveal what bankers in other parts of the world may be thinking of us and what, by the same token, is puzzling some people at home who, though they deposit money in banks, disclaim any pretense of knowledge concerning even the rudiments of banking.

Criticizes Our Examination System

"I used to think," said a prominent French banker, "that your American bank examination system was a good thing, but I do not think so now. Your bank examination system has broken down; it is a failure. Why did not the examination system prevent all these failures? You say the failures are the result of the de-

pression. Well, the depression is world-wide, yet we have not had comparable failures either here or in England."

Though Americans at home may denounce such considerations and explain them away, that does not take away from critics this peg on which to hang their criticism. But lest the picture may seem to be too dark, we have our friends:

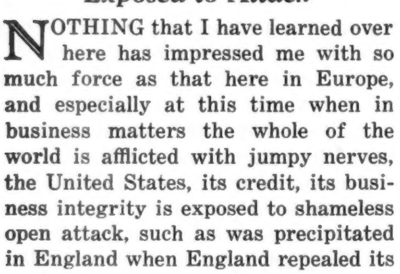
Effective aid in righting the situation came from the French Minister of Finance who made an examination of the situation, with the inevitable conclusion that the dollar was sound and that America was as sound as ever, let his findings and his opinion be known with the result that the situation radically changed within a short time.

But the bloom is off the grape and cannot be restored. Every untoward business event in the United States has the potential power of casting a long shadow in Europe. A newspaper story may be one thing in America and another thing abroad.

Exposed to Attack

NOTHING that I have learned over here has impressed me with so much force as that here in Europe, and especially at this time when in business matters the whole of the world is afflicted with jumpy nerves, the United States, its credit, its business integrity is exposed to shameless open attack, such as was precipitated in England when England repealed its section relating to the purchase of gold and to cunning insinuation akin to the "whispering" campaigns that sometimes in our own country have caused the embarrassment of worthy institutions.

"It is mutual suspicion, mutual distrust that weighs most heavily on people," said Jules Sauerwein, a veteran French journalist, in an address delivered not long ago at the American Club in Paris, and it inevitably follows that where mutual suspicion and distrust is so widespread and so much is occurring from day to day to keep suspicions alive and add to them that America, even though separated by 3,000 miles of water, could not forever escape these influences.



Why He Buries His Gold

"TAKE for example," he continued, "a man who, after years of hard work and economies, goes to exchange his securities for banknotes or his banknotes for a gold bar. This gold bar, he will shut in his safe, or he will bury it in the ground. That is a mentality of which you can say what you like, but it is impossible not to take it into account. The thing that inspires this man is a chronic state of distrust. If he is a middle-aged man, he has seen the invader twice overrun the soil of France; his father or his grandfather has seen that happen two other times in the past century. In a world where war continues possible, mistrust must remain natural to the people of the most vulnerable country.

"The policy of revenge, or, to be more exact, the policy of radical revision, is even more bitter with the German, because of the severe economic crisis he is going through. He not only talks about this revision that he thinks indispensable, but this revision incites a great part of the population to violent demonstrations. Germany, through more than 1000 newspapers which obey the right and the extreme-right wings of the political parties and through 9,000,000 citizens who twice voted against Prussian government proclaims that she is dissatisfied with her situation, and that she wishes to free herself by any means whatsoever. All those outcries have crossed the boundaries. Anxiety is growing in the hearts of the neighboring Polish people who fear that armies will overrun the territory and cut Poland off from the sea. The Czechoslovakian also is haunted by the fear of a new attempt of a union with Austria, which would surround three-quarters of his country. And the Belgian remembers 1914, and the French keeps his money and continues to arm himself. What reason for surprise, specially if eminent American senators find pleasure in nourishing the fears?"

Such are the emotions with which we have to contend in our efforts to help the Old World; such are the forces that play around our investments.

Cross Currents in Germany

BERLIN.

NO wonder it is difficult to understand Germany!

In its capital there is such a diversity of currents of thought and belief and ambition as probably never before in modern times have clashed.

Here is a nation with a new-found liberty such as made dizzy a lot of people in America after the Civil War. In their parliament they have just such a lunatic fringe as was seen in some of our legislatures in that same period. Then we had men who believed literally that liberty made all equal socially and in sagacity as well as in the exercise of the right of franchise. Germans have this liberty in theory and in fact, but at present government is by decree. The intoxication that attends new-found liberty would be bad enough in itself, though something to be expected, for it is found all through history when old governments went down and new governments were formed, and in modern times it is a phenomenon that has been common enough since the peoples of the world began to play rough house with thrones. In Germany the phenomenon has been aggravated by outside conditions chief among which is the pressure of Reparations, change of its frontiers, and the influence and example of Russia with its Plan.

Want It Russianized

THERE is, in consequence, a Communist party which believes, or thinks it believes that a Russianized Germany will ring up the curtain on good times. Therefore there is quite openly and frankly preached the doctrine of the death of capitalism and the abolition of banks and interest. If there is anyone in Germany who does not know what is meant by the "Doom

of Capitalism," then it is his own fault for its advocates are vocal enough to have reached everyone.

There is the Treaty of Versailles (often referred to as the crime of Versailles) on the one hand and on the other a rising generation which was not old enough to think very deeply about the War at its close who now are saying: "We didn't have anything to do with it, why should we pay?" And as they have not at the best much with which to pay or any prospect of ever having much with which to pay, they are taking lightly the profound problems with which statesmen are struggling. This class is not much concerned over either the plain issues or the fine ethical points. For them, it is easy to believe that the "Versailles Treaty was a crime" and that Germany was more sinned against than sinning.

After our Civil War some of our people were led to believe they could do things that were impracticable; after the World War and down to today there are Germans imbued with comparable notions that will get them or their country nowhere. The almost perfect cohesion that was produced by the wisdom of Bismarck and the iron discipline which prevailed up to the time of the Armistice is now gone. Instead, there are fourteen parties in the Reichstag (which will be discussed later) and the Reichstag is not functioning at that. Contrast that with the neighboring nation—England—which to meet a lesser crisis practically wiped out all parties and actually united in one party that the country's prosperity might be restored.

For anyone who has lived among the Germans either in their own country or any other country, no proverb is needed to emphasize their great industry and their effective domestic thrift. Notwithstanding that inborn thrift, there swept over the country such a wave of extravagance (but on borrowed money) that now that it is too late to do anything preventive about it, people make long journeys to see the effects of it.

Visions of a New Life

THE Socialistic ferment in the body politic produced visions of a new and enlarged life for the people and there came into existence a new crop of public improvements—parks and boulevards, stadiums and public houses and, even like America, a new kind of housing expressed in many miles of apartment buildings which for the most part are not paying and which are carried along on public funds. Very many of the larger apartments in these houses stand idle because the people cannot afford to pay the rent that is asked for them.

How may one account for this seeming outburst of ridiculous extravagance in a nation impoverished by war and overburdened by debt? The monarchs, now gone, had had in their time their full fling of extravagance in palaces, parks, parades and statuary. Well, "the people are the monarchs now, let us have a little"—and they did, especially as money lenders were numerous and not only willing to make loans, but anxious to make loans. Over and over in Germany, the visitor is told that, "We are not altogether to blame. They came in groups to force loans upon us."

So between the forces of these strange times which are bewildering in many countries more favorably situated—between the insistence of lenders and the later insistence of creditors and victors, the counsel of its conservatives, the wild leadership of men who after all these years still are gripped in the delirium of the war fever, we have a Germany with an unknown and a dark future—a Germany not facing one crisis but with at least two crises—short term debts and reparations, not to mention the political crises never more than a few months away.

A small matter, to be sure, but nevertheless indicative of the maelstrom of cross currents in the national life is an incident reported by the newspapers as occurring in Gelsenkirchen in the Ruhr a few weeks ago. Ten per cent of the workers are idle; domestic economy is so fine that in the suburbs of Berlin thrifty housewives save potato peelings and apple peelings and carry them to the market places where they trade them with the peasant farmers for pitiful little bundles of wood which the farmer gathers from his ground. The peelings help feed the farmer's stock; the little bundles of wood start the fires. But at Gelsenkirchen the police recently burned in an open place $25,000 worth of goods—coffee, tobacco, cigars, cigarettes, tea and chocolate, they had seized from smugglers! The people, used to visitations of delegations of charity workers going from street to street blowing bugles, and calling out for donations of any kind,

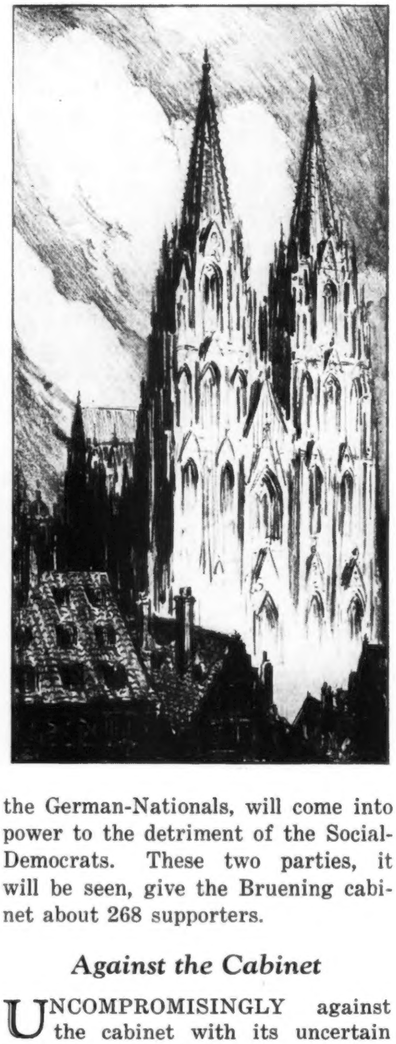
clothing, food, fuel or anything to help the poor, were incensed over such an insane fulfillment of the law relating to smuggling. But there again, we catch a glimpse of cross currents.

The Futility of "Settlements"

STRESS is laid upon these cross currents because any lasting settlement of the great financial problems must have back of it two fundamentals—the sanction of a majority of the people and a governmental or national policy with some degree of continuity. In a republic the government policy can in the long run be only a reflection of the sanction of the people. That in turn must include the sanction of the noisy cafe statesman as well as the sanction of intellectuals and real leaders; the approval, too, of the man with a little capital, or his little will not remain at home for investment but will take flight beyond the borders. The wise men of Versailles evidently did not ponder much over the possibility of capital taking flight from Germany if the yoke grew too heavy, though the migration of capital is as well established as the migration of the birds. Judged by the Reichstag as it is constituted at this writing, there is no good ground for belief that this basis on which to sustain a settlement is a satisfactory basis. The Reichstag has 577 members divided into fourteen parties. Eleven of these fourteen parties are in principle against reparations. Three hundred fifteen of these 577 members belong to parties that voted against the acceptance of the Young Plan in the spring of 1930. Moreover, the multiplicity of parties has paralyzed the Reichstag because of the great difficulty in getting the majority necessary to pass any measure. The Reichstag cannot function and temporarily at least it has been laid aside, and in place of parliamentary laws there are decrees issued under Emergency Article 48 of the German Constitution, and the police rigorously enforce the decrees.

The manner in which Germany came to government by decree is suggested by a comparison of the duration of the several sessions held since the formation of the Bruening Cabinet in the spring of 1930: The first session lasted three and one-half months; the second session two months; the third one and one-half months and the last but four days.

The position of the Bruening Cabinet is, to put it mildly, more than unstable. It hangs by a thread. I am told that the moderate parties which support the Bruening cabinet number 132 members. Then there is the support of 136 Social-Democrats, who support not from love or conviction but as a matter of strategy, for they fear that if the Bruening cabinet is dislodged the so-called Right Extremists, consisting of the Hitlerites and



the German-Nationals, will come into power to the detriment of the Social-Democrats. These two parties, it will be seen, give the Bruening cabinet about 268 supporters.

Against the Cabinet

UNCOMPROMISINGLY against the cabinet with its uncertain support of 268 members are no less than 235 members composed of 108 Hitlerites (National-Socialists); 43 German Nationals; 77 Communists, and seven who are called "Left Socialists." Besides all that, there are four other parties with a total of 74 members, and these 74 are neutral or uncertain or are divided in pro-Bruening or anti-Bruening sections. But uncertain as is the position of the cabinet statistically, thus far it has not been defeated on any important issue. Its majority has varied from eighty to one.

We now come to what seems to be a very significant thing in considering the government as a necessary basis for financial settlements and that is the trend of the people. Are they becoming, as revealed by successes and failures at the elections, more moderate or more radical?

The Tendency

THE tendency in all recent elections has been away from the moderate parties and toward the Nationalistic extremists on the one wing and the Communists on the opposite wing. The former have, however, increased their votes much more than the latter. The moderate parties have consistently lost. In the first election after the Revolution (1920) the National-Socialists (Hitlerites) had not one seat; in the Reichstag of 1928, 12 seats; in the present Reichstag 108 seats. In the 1920 Election the Communists had 4 seats; 1928, 54 seats; present Reichstag 77 seats.

Since 1920 the Social-Democrats (who support the moderate parties) have seen their strength fall from 186 to 143; and the moderate People's Party (Volkspartei) has shrunken to less than half, while the former Democratic Party (moderate, now called State Party) has lost nearly two-thirds of its seats. Bruening's own party the Centre (being a religious, Catholic party) has been relatively stable. At recent local elections (Oldenburg, Hamburg, Anhalt, Mecklenburg) the extremist National-Socialists have won heavily, the Communists have won considerably; and again the middle moderate parties have lost.

The profound importance of what is revealed in the next paragraph will be realized by recalling that the greater part of Germany's troubles come from the attitude of capitalist nations. She owes them much, she avers that she cannot pay, and judged by the votes there is a growing belief that the ills of the world would be lessened by abolishing capitalism, though every German who could, would scramble for the fragments of capitalism to set himself up as a little or a big capitalist!

In the Reichstag election of September, 1930, more than half of the

electorate voted for anti-capitalistic parties: Herein we have the resultant of home troubles and the influence of Russia.

Nor is this antagonism to capital confined to the classes of lowest intelligence. There is an intellectual class which is talking and propagandizing against what they term "private capitalism" though obviously there can be no real distinction between capitalism and private capitalism. These people see in the present world-wide depression the fall of capitalism and with them "the world economic crisis" and "the doom of capitalism" are synonymous terms. And they see in "a plan" such as Russia has, the way to better days and better times. Capitalism, they say, has failed.

The State Has Failed

CAPITALISM has not failed, declare another group, the economists of Germany. What has failed, they declare, is "pseudo-capitalism," which is a mixture of private capitalism and state capital or state interventionism. When private capitalism was free to manage, to follow the principles of economics and the rules of finance, then crises, the economists point out, were never as severe as they are now. The severity of the present crises, they aver, is the natural result of state regulation, and state participation in business. Right or wrong, pseudo-capitalism has a strangle hold on Europe as is evidenced by such institutions as the dole in England, the index number of France, by which wages are adjusted, the municipal housing scheme of Berlin, of which more will be said later. These economists recount the great failures in government price-fixing in other parts of the world and then point to what has been attempted in the same way in their own Germany, such as—

The state attempts to maintain a high price for wheat which intervention has not prevented widespread bankruptcy among farmers.

The attempt to lower prices. The German government recently decreed a ten per cent price reduction on all proprietary articles.

Fixing of wages. A wage arbitration decision can be made binding on employer and employees. In 1928 and 1929 when prices and the cost of living were falling, wages were being pushed up.

State monopolies, such as:—

State compulsion to combine; unwilling coal owners have been forced into the Ruhr syndicate.

State subventions to particular branches of industry. This is universal in Germany and, as one seasoned observer points out, is a "bounty on inefficiency, prevents the elimination of the unfit and tends to maintain the already excessive production capacity of certain industries."

Altogether, Germany had, in 1930, no less than 50,000,000,000 marks of public funds (Reich, state and municipal), invested in business, including banks.

Then, besides all of the foregoing, there is the state interference with foreign trade expressed in the form of tariffs, railroad freight rebates, export bounties, import regulations or the prohibition of imports.

In Germany, as in America, and elsewhere the state in business is not a success, whereupon there has come a saying among certain classes in Germany when they refer to these incursions of government into the domains of business, "If you want the State to do it you must do it in the Russian way!" More cross currents—the state diverts the current of business to produce better conditions, but, unknowingly, adds to the drift toward Communism.

Safe for the Winter?

AND so winter comes upon Germany with ten per cent of its people out of employment, with its victors in war forever talking about its capacity to pay; with the word "Reparations" sedulously avoided and "Tribute" substituted; with taxes up so high that there have been instances of people pulling down houses to escape the payment of taxes, and with a new crisis to be faced about the end of February when the period of respite on the short term debt expires.

"We are safe for the winter," said one observer, meaning that there was no danger of a serious political upheaval.

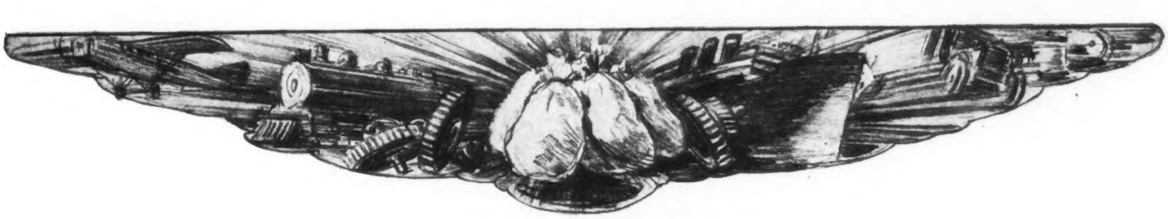
"There is likely to be a revolution in three months," another student of affairs told me. He has resided in Germany many years and from a lifetime of experience in many countries is able to interpret coming events. "It is not necessarily a violent revolution; it may be accomplished by peaceful means, but it is coming."

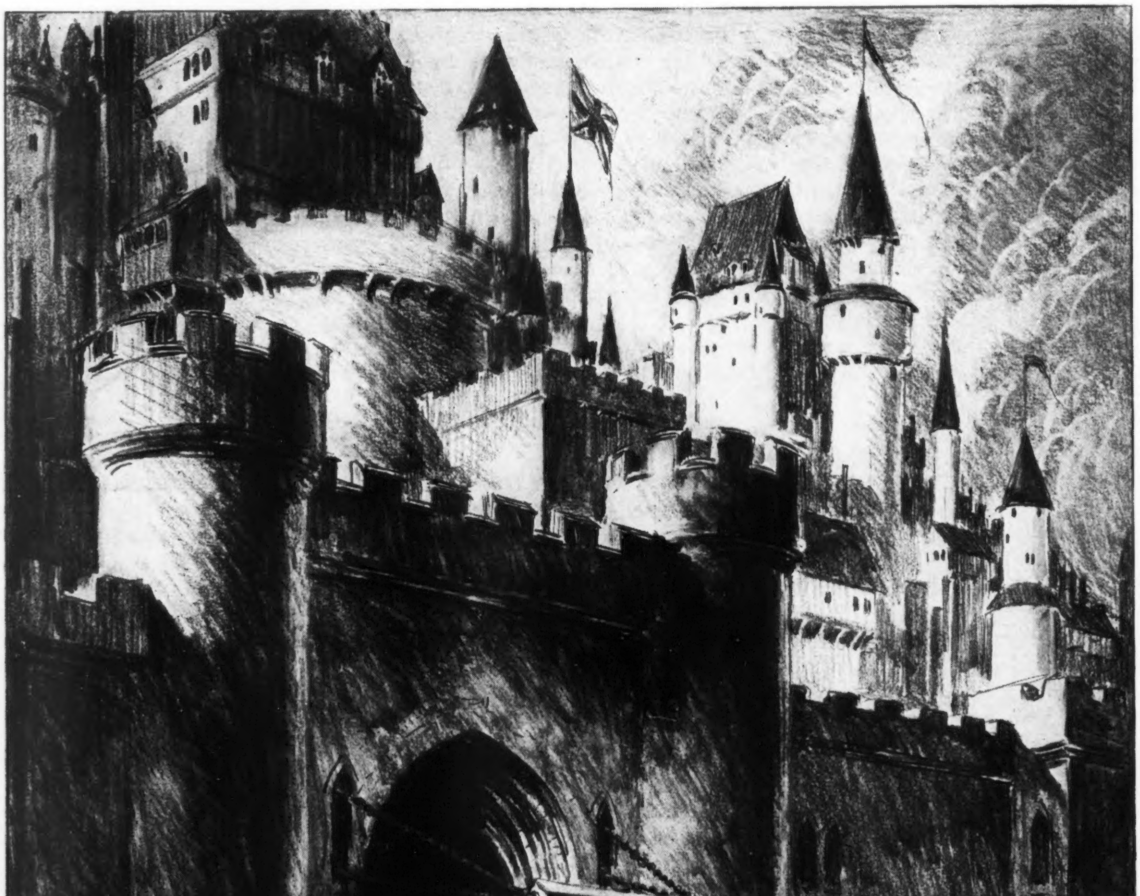
Are They Downcast?

MEANWHILE, statesmen and public spirited men work to avert the coming disaster. In the face of all this, are the Germans downcast? Not on the surface; before the beer comes to a group in a café, the natives will tell their American friends how hard it is, and the stories are indeed sad. After the beer begins to work, they appear to be light hearted.

But notwithstanding all the dark signs there is another side to German life. The first thing I noticed were the whistlers melodiously piping their ways through the streets at night, and on my first morning in Germany I was awakened by the merry lilts of men going through the streets on their way to work. Why should there not be some philosophical souls in Germany? She made a grand capital levy on the world through the depreciation of the mark. She made a second grand capital levy through the foreign loans; she has paid Reparations, to be sure, but we have loaned her more than her Reparations have amounted to, and finally, in the midst of all her gloom and misery there is a silver lining to the cloud, and that silver is the moratorium of one year generally held to be the prelude to a world conviction that there is to be an end to Reparations!

Verily there seems to have been a method in all this madness!





ENGLAND RAISES THE DRAWBRIDGE

Money Without Gold

By WALTER E. SPAHR

Twenty-four Countries Throughout the World Have Gone Off the True Gold Standard, Wholly or in Part. Issue of Bimetallism Comes to Life, Together With Other Substitutes Which Seem Destined to Return Each New Generation for Discussion.

ON September 21 England departed from the gold standard for reasons to be mentioned below. Denmark at once placed an embargo on gold exports. On September 27 Sweden, Norway and Egypt followed. Sweden's trouble was due, apparently, to the world-wide financial unrest which made it impossible to recall Swedish capital invested abroad, her heavy loans to Germany, the trouble in England where the Bank of Sweden had balances, and to the fact that she was unable to obtain a loan from France or Wall Street when her foreign bill holdings had reached a low figure and her loss in exchange became dangerous.

Norway was even more closely linked to the pound sterling than Sweden and, to protect herself, abandoned the standard until further notice and shipped one-fifth of the gold supply of the Bank of Norway to the Bank for International Settlements. Egypt prohibited the export of gold, besides raising her tariffs, because her trade was largely with Great Britain, which meant that it was necessary as well as convenient to have the same money value, and also since a large part of the secondary reserves of the note issue department of the National Bank of Egypt is carried in British Treasury bills or other British Government securities payable in sterling. The value of this security naturally declined radically when England went off the gold standard.

Movement Contagious

CONCURRENTLY with the decision of Norway and Sweden to suspend the gold standard, Norway, Sweden, Denmark, and Finland announced that they had decided on joint measures for the future to maintain the parity of their currencies. Finland, however, suspended the gold standard on October 12. Colombia rushed through legislation similar to England's, barring gold exports, and abandoned the gold standard. Mexico had abandoned the gold standard for silver as far back as this last summer.

Here to Stay

THE gold standard has its roots too deeply in the history of the race ever to be discarded lightly. A fundamental characteristic of human beings is their desire, says Dr. Spahr, to stand out from and above fellows. They have always wanted gold as ornament, or to command goods or to serve as a reliable storehouse of value for the future. Any commodity that is liable to overproduction cannot serve as a standard of value.

On October 12 the rich gold-producing states of Northern and Southern Rhodesia abandoned the gold standard and adopted sterling currency since the bulk of their export and import trade is with England.

Following England's step, stock exchanges were closed in the leading centers except in Paris, Spain, United States, and Canada. Sterling dropped rapidly from its par of $4.87 to various low rates and still remains at a substantial discount. Prime Minister Bennett of Canada announced that no matter what England did, Canada would remain on a gold basis. Nevertheless, the Canadian dollar has suffered a discount, and on October 19 Canada prohibited the export of gold except on a license issued by the Minister of Finance. Greece, which had pegged her drachma to the British pound for years, switched, and pegged her unit, late in September, to the dollar. Danzig did the same with her gulden. Brazil began to collect taxes on a dollar basis despite the fact that her milreis is pegged, by the law of 1926, to the British pound. Turkey, which has quoted foreign currencies on the Istanbul exchange in British pounds, switched all quotations into francs. Bulgaria and Rumania switched to francs for export-import business quotations. Czechoslovakia, which had quoted her goods in pounds for export, shifted her quotations to the more stable Czechoslovakian crown. The Portuguese escudo was permitted to cling to the pound and slide with it, thus giving Portugal some advantage over Spain in shipping wines to England.

On October 15 a dispatch from Washington reported that a total of twenty-four countries either had abandoned the gold standard or had taken some steps to protect their gold through an embargo on gold exportation or otherwise. In addition to those countries already mentioned, this dispatch named India, Germany, Austria, Italy, Hungary, Latvia, Jugoslavia, New Zealand, Argentina, Chile, Bolivia and Spain. The restrictive measures taken in some of these countries are certainly of such a minor nature that they have little significance. Accompanying all these changes was the shift in interest to New York and Paris as money centers, since they are the chief holders of the world's gold supply and apparently should experience no great difficulty in maintaining their currencies on a gold basis.

The Pound in 1925

IT may be recalled that the Chancellor of the Exchequer announced on April 28, 1925, that England would return to the gold standard. By the Act of May 13, 1925, effective Decem-

ber 31, 1925, this step was taken in order to restore British prestige in international financial affairs. The pound, which had fallen as low as $3.19 in February, 1920, was restored to par when the Bank of England contracted to sell gold to all comers provided the amount demanded was not less than 400 ounces.

While the restoration of the pound helped the prestige of England in the banking world, it hurt British industry. A few outstanding financial writers, such as John Maynard Keynes, for example, opposed the deflation of the currency, urging, instead, a managed paper currency and a devaluated, rather than a deflated, unit. But the great preponderance of opinion was in favor of a return to a deflated gold standard and Keynes' proposal was rejected. Doubtless his popularity is enhanced at present and he probably will receive a new hearing.

However that may be, England was unable to maintain her standard for various reasons: British industry was heavily taxed to pay interest on the nation's war debts and the real burden of these was increased because of the fact that the war had deprived British industry of some of its primary markets in the Dominions and South America, where the United States entered, and in India, which Japan began to penetrate. Heavy inroads were made on government funds by the strikes in the coal industry in 1925, by the government subsidies to the coal operators during 1926-1927, and by the heavy burden of the dole as a result of the liberalized Unemployment Insurance Act of 1920. The rise in the value of sterling handicapped industry in its foreign trade. Little capital was available, furthermore, for developing industry.

The Pull On England's Gold

THE United States had raised a tariff wall against her goods; and since a debtor country can pay only in goods, short-term liquid claims, or gold, the United States had set the stage to drain England of her gold. Due to the terms of the debt settlements, much of England's lending power was transferred to France and the United States, since virtually the whole of the large annual sums due from Germany accrues to the credit of France and the United States. This has had the effect of greatly increasing the surplus of these two countries, both absolutely and relatively, to the surplus of Great Britain. The fact that, during the last two or three years, these two countries failed, at least partially, to employ these receipts either in the purchase of additional imports or in the making of additional foreign loans on long-term presented a contingency which, in the words of the *Macmillan Report* of June, 1931 (p. 107), "the normal working of the international gold standard does not contemplate and for which it does not provide." The authors of this report then pointed out that should this set of difficulties prove to be more than temporary "we can scarcely expect the international gold standard to survive in its present form."

Furthermore, to help industry, the Bank of England began fostering low interest rates, thus helping to drive money from England. Foreign deposits began to decline; domestic capital also went out in loans to Germany, South America, the Dominions, and elsewhere. The stock market boom of 1928-1929 in the United States, with the attendant high interest rates in the open markets drew funds from London. The withdrawal of foreign balances by French banks also started a fairly steady flow of gold to Paris, not only from England, especially during the years 1928-1929, but from other countries. Such financial scandals as the Hatry and the Kylsant in 1929 caused heavy losses to British investors. The failure of the Banque Oustric in Paris, in 1930, caused the French to withdraw gold balances from London because they needed the cash. The difficulties that began in Austria last spring and spread to Germany contributed to the English difficulties by freezing large amounts of short-term funds due British investors and banks which had come to the aid of those countries in their financial distress. France also withdrew cash in order to give herself a more effective hand in continental politics, especially in her negotiations with Germany. France, in time, saw the danger of such heavy withdrawals of funds from London and stopped them, but such countries as the Netherlands and the United States did not, and by the end of July of this year the reserve in London was reaching the danger point and arrangements were made with the Federal Reserve Bank of New York and the Bank of France for a loan of $243,000,000 to the Bank of England. A little later France and New York arranged for $400,000,000. Ramsay MacDonald had resigned as Laborite Prime Minister and headed a Coalition cabinet, and Chancellor Snowden undertook strenuous measures to balance the budget. The foreign credits were largely exhausted and England abandoned the gold standard for the time being as a protective measure.

The English have been compelled to meet their problems as best they might and the method adopted is about the only method known—unless the country wishes to devaluate its currency immediately—once the reserves of the central bank have fallen to the danger point with capacity to borrow severely impaired. After such a drastic step has been taken certain beneficial effects, of a temporary nature, are experienced by a country like England in her present condition. It has been pointed out how her exporters and foreign importers gain if the price level rise lags behind the decline in the value of sterling in foreign exchange. This is exactly what has taken place. For example, the *London Economist* reports that, by October 10, the price level had risen 7.8 per cent above the level of September 18, whereas the depreciation of sterling in relation to dollars was about 18 per cent. In addition domestic producers should receive the usual stimulus accompanying inflation, the great debtor classes should feel some relief from their burdens, and many other incidental effects of a similar nature should follow.

But these changes, some of which are temporarily of a beneficial character, cannot continue to bring lasting benefits. The spiral of inflation soon becomes pronounced in nature and assumes the dangerous aspects of the spiral characterizing a cyclone. Such an inflation must be controlled or it leads ultimately to disasters. In due time, therefore, England, as well as other countries, will be faced with the problem of determining what she will do about her currency and her standard. Since most people recognize this fact, we are faced with the usual conjectures as to what she may do with her pound. In addition, we are witnessing the usual crop of suggestions as to what she should do, all of which forces one back to a reexamination of the virtues of a gold standard, of England's returning to the old par, and of some of the other proposals made by those who think there are better standards than the gold standard.

Meaning of "Gold Standard"

IT is generally said that a gold standard is one in which the gold unit is freely coined and full legal tender. This extremely condensed statement has within it certain important and practical implications: (1) That there is a free interchange of gold bullion and coin of standard fineness; (2) that all other money will be kept at par with the standard unit either through legal provisions for redemption or through actual convertibility; and (3) that no impediments be placed upon the export or import

(*Continued on page* 413)

Deficits Compel Tax Revision

By MORRIS EDWARDS

Federal Government Is Seeking New Sources of Revenue Which Can Be Tapped Without Harassing Business. Treasury Has Been Keeping Abreast of Expenditures by Means of Short Term Borrowing. This Should Not Continue Indefinitely.

ABANDONING with a sigh of regret their perennial hope that Federal tax revision might be deferred until better times, political leaders prior to the opening of Congress appeared reconciled — perhaps only resigned — to a material increase of Federal taxes during the present session.

On the stage, one sometimes sees a frail hero declare how he will punch the villain of the piece, only to quail and recant his big talk when he turns around to find said villain towering ominously over him. Much of this sort of stage business has gone on in Washington in recent months concerning tax revision.

Dubious Strategy

ALMOST every arriving lawmaker—fresh from home with the belief that heavier taxes would be an inopportune deterrent of business recovery—tells how resolutely he will resist a tax increase. He asserts that it is not imperative, that it would be dubious political strategy, and that some scheme can be found to tide over the situation until business has improved and the presidential election is out of the way.

Time and again, however, this same lawmaker a day or two later is proclaiming in his most ponderous manner that the Federal budget must be balanced and that this is no time to give even a moment's thought to the political risks of such action.

Everyone understands what has happened. He has bumped up against the villain of the piece at close range. In this case, the towering villain is a Treasury deficit which may be as much as $2,000,000,000 by next June 30. However wistfully partisan leaders wish they might put it aside, it simply declines to banish itself from the scene. It is very much and very painfully present. It must be dealt with.

Acceptance of the need for overhauling the Federal revenue system is only the current phase of a situation which has been developing for several years. During good times, revenues came in easily. The Treasury rolled in abundant surpluses. That encouraged free spending. When the business depression came, revenues fell off. Surpluses were replaced by deficits, and these were aggravated by commitments for large expenditures still being outstanding. The situation was like that of the father who, having had his salary cut and his securities' values decimated, realizes uncomfortably that in an open-handed moment he had promised his wife some new sables and his daughters a year of travel abroad. But where the father might say, "tough luck, girls; things ain't what they used to be," the Treasury had to keep on spending. Congress had made its commitments the law of the land and the Treasury had no choice.

When Congress met a year ago, a moderate deficit was in prospect for the fiscal year ending June 30, 1931. A surplus of $30,000,000 was estimated for 1932. At that time, an interval of financing current expenses through modest borrowings seemed prudent, especially in view of the previous retirement of more than $4,000,000,000 of debt in excess of statutory requirements. Except for failing to renew the 1 per cent temporary reduction in income tax rates voted in 1929, Congress deferred tax revision pending another year's developments.

It Grew

THAT year now has passed. The moderate deficit expected in 1931 turned out to be the colossal sum of $903,000,000. Instead of a surplus of $30,000,000, the prospects for the year ending June 30, 1932, now are a deficit conservatively estimated at $1,500,000,000. Other responsible estimates indicate that it may run as high as $2,000,000,000. In these and other respects, the blows of adversity rained upon the Treasury have been far more serious than appeared likely when Congress last met.

The first quarter of the 1932 fiscal year—the period from July 1 to Sept. 30, 1931—provides a close-up of the Treasury's distress. It showed a deficit of $380,000,000. Even though the year ultimately ended with a deficit of $903,000,000, the corresponding quarter of the 1931 year recorded a surplus of $55,000,000. Moreover, the deficit for the first quarter does not include roughly $100,000,000 which should have gone into the sinking fund toward meeting the year's requirements of about $400,000,000. Last year's surplus, on the other hand, represented the net surplus after $65,000,000 had been deducted for sinking fund requirements.

Uncertain Prospects

THAT the first quarter's experience may be a favorable rather than unfavorable index of what the Treasury may expect between now and June 30, 1932, is indicated if any weight at all is accorded to these adverse factors: (1) that the $246,000,000 of debt payments from abroad in the 1931 year will not be duplicated in 1932; (2) that large expenditures authorized by Congress, especially for construction work, have not yet achieved their full effect in the Treasury picture, and (3) that the tax on 1931 corporate and individual incomes may yield less, perhaps materially less, than did the tax on 1930 incomes. The possibility of income tax returns next March 15 being even more disappointing to the Treasury than were the returns of last March 15 is at least suggested by preliminary compilations of business earnings. One such tabulation, embracing 555 industrial corporations, showed their earnings in the first half of 1931 to be only 52 per cent of what they were in the first half of 1930. These straws in the wind tend to explain why many observers are expecting the 1931 deficit to outdistance by perhaps $500,000,000 the earlier estimates of $1,500,000,000.

That is the situation which has been unfolding during the summer and fall, washing the ground from under the hopes of both major parties to avoid tax revision in this Congress. The Treasury has had to meet the mounting deficit by borrowing on short-term notes whose volume is rapidly becoming unwieldy. How long such

borrowing might be continued, in the absence of positive action by Congress to rehabilitate the Treasury's strained position, is a matter of opinion, but it could not go on indefinitely. Each new issue of securities has had to be brought out at a small advance of interest rates. This has tended to decrease the inventory value of the $17,000,000,000 of Government issues held by banks, trust companies, insurance companies and others.

Each issue which increases the net debt outstanding weakens the strong argument of a year ago that borrowing was justified by the excess of debt retired during prosperous times. Assuming that $600,000,000 of the excess was used up in 1931, and that another $400,000,000 was resorted to in the first quarter of the 1932 year, there might be a theoretical defense for continuing the practice until the entire excess of more than $4,000,000,000 had been reissued. But only a theoretical defense. Potential purchasers of Government bonds do not discriminate nicely between simon-pure new issues and the reissue of bonds retired in previous years in excess of statutory requirements. The one looks the same as the other.

The legislative nightmare

The foregoing considerations, establishing the impracticability of continuing to finance deficits by borrowing without some positive action to indicate where the end of the process will be, may be held responsible for the reversal of official attitudes toward tax revision. It has been a case of practical forces outrunning political wishes. At first the Treasury alone contended for resolute tax revision. Then scattered Congressional leaders added their voices. More recently, there has been every indication, short of direct pronouncement, that the White House has accepted this view, politically disappointing though it may be to all parties concerned.

With continued borrowing ruled out by practical circumstances, only two courses of action remain: to spend less or to tax more, or perhaps to work out a feasible combination of the two. Reduced spending first received attention.

Washington has seen a succession of efforts to reduce Federal expenses, but it rarely has witnessed an economy drive as determined as that made by President Hoover during the preparation of the 1933 budget which shortly goes to Congress. In this connection, some facts should be noted. The principal one is that a large part of the Federal expenditure is virtually inflexible.

Although Federal expenditures run well in excess of $4,000,000,000 a year, the executive department does not have all of this field through which to roam in its search for economies. First of all, $1,200,000,000 of interest charges, debt retirement, trust funds and tax refunds are placed beyond reach of the presidential axe. Another $400,000,000 of pensions and veterans' payments may be controllable in theory, but scarcely in practice.

Only about $2,500,000,000 are controllable by the President and Congress, and only part of this comes within exclusive Presidential discretion. Much of the sum is for activities created by Congress. The President may restrict somewhat the scope of such activities but he cannot dispense with them entirely without prior Congressional sanction.

Power Rests With Congress

PRACTICALLY, this means that the chief executive's quest of economies is limited to the routine operating establishment embraced within the cabinet departments. He has little or no chance to control the expenditure of specific funds voted by Congress for expenditures and rotating funds such as those granted for the Farm Board, the Shipping Board, the direct payments authorized by statute to ex-service men, drought relief and seed loans, building construction, Federal highway aid to the states, and subsidies to ocean-mail and air-mail carriers. Furthermore, it is the operating departments which have borne the brunt of all previous economy drives. They have been pruned time and again. Their fat long since has been cut off. Further retrenchment of the type now being made necessitates cutting right into the meat and muscle.

Even so, the year's harvest of economies seems likely to approach $300,000,000. The figure represents an actual cut under the previous budget, not just a whittling of inflated departmental requests. Although Con-

gress may object to some of the specific reductions which will be embraced in the new budget for 1933, it is quite likely that a total retrenchment of $300,000,000, perhaps more, will be effected. For years, Congress has prided itself on allowing no more, and sometimes less, than the budget submitted by the executive branch.

Some time ago, in a group of persons familiar with the Government's finances, a remark which sums up the situation was made by a man who, while not in the Federal service, is regarded as an authority on the subject. He said:

"Reduce Federal expenditures? Yes, it can be done. But no really important reduction can be made in the operating departments. I am frankly astonished that Mr. Hoover has been able to find as much as $300,000,000 which he believes can be eliminated from their appropriations.

"Retrenchment large enough to be important in the present Treasury situation can come only through a renunciation of what appears to be settled public policy—at least it is the view of Congress as incorporated in the statutes—in one of four directions. These are (1) current expenditures for War and Navy; (2) appropriations for the benefit of war veterans; (3) the statutory schedule of debt retirement, and (4) the subsidies to business and the states, such as those for merchant marine, air mail, post office, Federal road and vocational aid, farm board, etc. To cut expenditures by any significant sum, we will have to reverse our policy in one of those four directions."

How?

THREE hundred millions of economies manifestly have their enduring values, but it is equally manifest that they do not wholly save a situation in which perhaps as much as $2,000,000,000 is needed to balance the budget. That is the realization which finally is borne home to every arriving congressman and senator. From that realization, the next step inevitably is reluctant agreement that a shake-up in the tax structure is unavoidable. With that major premise apparently a foreclosed issue, the only remaining question is the form which such revision will take.

Revise the rates of income tax? This proposal appears in at least two forms. One is to increase the surtaxes on large incomes. The other is to decrease exemptions and broaden the base of the tax.

The idea of increasing rates in the higher brackets above their present maximum of 20 per cent has numerous champions in Congress, but it is by no means accepted unanimously. This would involve heavier taxation of the wealthiest classes. Ordinarily this suggestion would be more popular from a political standpoint than it is now, but both parties are eager to avoid any shadow of responsibility for driving money out of productive channels and thus slowing up business. Moreover, this is a Presidential year and it is from among taxpayers in the higher brackets that large campaign contributors are recruited. Thus, politically speaking, although it may be necessary to boost somewhat the higher surtaxes in order to avoid the demagogue's charge that "the rich are escaping," neither party is likely to do as much in this direction as it may like to talk about doing.

There are genuine doubts, however, concerning higher rates in the upper brackets from a strictly revenue viewpoint. With money commanding no large return in industry just now, and with $19,000,000,000 of tax-exempt securities offering an easy refuge, it does not take much pressure to push this tax beyond the point of diminishing return. It is possible that some additional revenue might be obtained here, but it also is possible—in view of the apparent drop in taxable income and of the ease of tax avoidance—that even a radical jumping of the higher rates would not do appreciably more than retain for the Treasury the revenue already being received from this source.

Political Complications

LOWERING of the personal exemptions, with a view to bringing several million more people into the family of Federal income tax payers, has possibilities of both immediate and long-range interest. This course might yield $40,000,000 or $50,000,000 of new revenue—not a great deal in the light of present needs—but it would have the virtue of bringing the realities of government home to a larger proportion of the population. One should not lose sight of the fact, though, that of all possible changes in the income tax structure this is the one surrounded with the most difficult political complications.

One phase of current discussions is singular when compared with previous revisions of revenue laws. It is that there has been scarcely a whisper, if that much, about increasing the rate on corporate income. This is still at the war-time level. Apparently there is general acceptance that even the present revenue exigency is not sufficient to warrant further inroads upon already harassed business enterprises.

A question incident to any shifts in income tax rates is whether they should be made retroactive to 1931 incomes. The urgency of the Treasury's need at first blush might obtain consideration of this course, inasmuch as increases which might be made retroactive would be reflected very shortly in Treasury receipts during the latter half of the 1932 fiscal year and also during the 1933 year. Such a proposal, however, would stir up an enormous volume of protest, even more vociferous now than ordinarily would be the case. Business earnings are low, reserves for taxes already have been set up, and retroactive increases would be even more hurtful than usual. Beyond that, a broader view is that while the Treasury admittedly needs early aid, it needs that less than it does simply a positive action by Congress which promises to put an end to deficits at some definite time, not too far removed from the present. Continued borrowing to finance current expenses would be much more feasible once the end of the road was definitely in sight.

Sales Tax

ENACT a general sales tax? This has long been discussed. Such a proposal was turned down in 1921. Now it is being brought forward again. While on paper such a tax has enormous revenue possibilities at even nominal rates, it offers serious difficulties of administration on a Federal basis. This always has been stressed vigorously by the Treasury. Such a tax also has large alleged defects from social and economic points of view It is a remedy which appears unlikely to be considered seriously.

Enact a few luxury taxes? Such a group of taxes, limited to articles of wide use but not of first necessity, are the favorite affirmative proposal of the Treasury Department and of the more conservative leaders in Congress. Such taxes, collected at the point of production, yielded large revenues during the war. There is feeling that the revenue system has been harmed by the too rapid repeal of such taxes. It also is notable that the one major surviving tax of this nature, that on tobacco, has proved to be one of the Treasury's most stable mainstays during the depression.

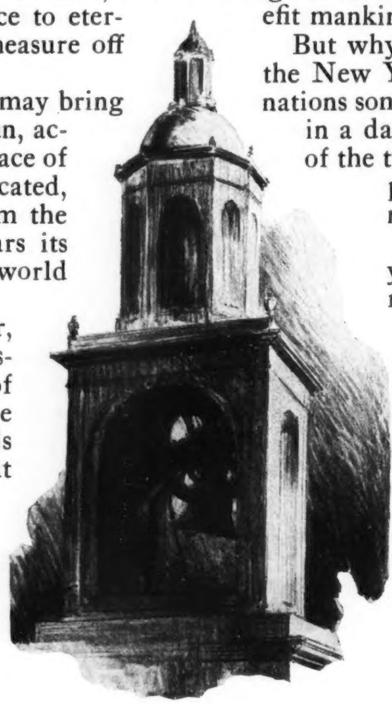
There is strong belief that such taxes—say, on automobiles, radios, candy, jewelry, soft drinks, moving picture and theater admissions, cosmetics, etc.,—could be made to balance the budget if supplemented with moderate adjustments in the income tax structure and with the most rigorous economy in expenditures. Even with this powerful argument in their favor, however, it by no means can be taken for granted that they will be enacted without the sternest opposition. The industries whose products would be

(Continued on page 416)

Twelfth Month

HOW many different kinds of months there are! The lunar month, the anomalistic month, the nodal, nodical or draconistic month, the sidereal month, the tropical month, the synodical month and the solar month—all arbitrary dippings out of the eternity of time, and not making any difference to eternity, however we may measure off any little portion of it.

One month or another may bring us a little nearer to the sun, according to where on the face of the globe we may be located, but in all of Christendom the twelfth month, as it nears its end, brings the whole world closer together.



At the end of the year, the world comes to a festival in which men of many nationalities rise above their national walls—a beautiful fact that after a year of labor mankind, like a woodchopper coming out from a forest at the close of a dark winter day, or a miner coming up from below at the end of his day of toil, can turn to this festival as to the warmth and glow of a home fire!

A comfortable fact also is that following this festival in the twelfth month there comes a New Year which it is the way of the world to look upon as a new beginning, and the way also of a goodly part of the world to look upon as the greatest of gifts—a gift in comparison with which all others fade into nothingness.

It is the same New Year that comes to everyone. Some, like Wilkins Micawber, Esquire, will wait for something extraordinary to turn up. Some will make much of it—will draw from it happiness for themselves which they will share with others. Some few fortunate ones will, perhaps, make something out of the New Year that will benefit mankind for centuries to come.

But why wait for the coming of the New Year? As the history of nations sometimes has been changed in a day, so the remaining days of the twelfth month may be the period of great opportunity for many.

Snap out of it and put your impression on these remaining days by constructive work, however humble it may be.

Cheerful, courageous adjustment to one's circumstances helps to bring about better conditions.

WE are too prone to forget all the constructive, beneficent forces that are working for us—too prone to forget the latent abilities that we have not yet called upon!

Skip one crossword puzzle and make a list of the former; skip another of the daily diversions and—

Think hard about the latter!

James E. Clark

EDITORIAL

The Security Department in the Commercial Bank

WHEN prosperity was swinging along with the rhythm of a river flowing to the sea, the security department in a commercial bank got along without criticism. It seemed to belong to the bank naturally, to be normally a source of profit, and logically a service and a convenience to the customer. But whenever and wherever a man, especially a subordinate, must make his livelihood and make his record by sales and by sales alone, the finer considerations of propriety, the ethics of business, are likely by imperceptible degrees to become declining considerations and the personal record or the personal profit the ascending factor. In booming times, the surge of general prosperity adds to the momentum. On the part of the customer, buying on analysis in such periods gives way to buying on rumor and buying on "hunches." Customer carelessness adds to seller carelessness, and each may assume knowledge and investigation in the other which the other hath not.

As confidence is the very foundation of the banking business, where is the commercial bank that can in the long run afford any impairment of confidence? If the market falls, as the market has fallen, and those who purchased from the security department of a commercial bank have sustained losses, is the amount that the bank made on these transactions sufficient to compensate the bank for what it has lost in the confidence of its customers?

The commercial banker, with the assistance of his proper committee or directors, may sit in impartial judgment on an application for a loan, but with a long list of securities to sell he, to a certain extent, must pass out of his role as an impartial judge and assume the character of a salesman whose dominating thought is not to carefully and judicially weigh all the fine points and the immediate and remote possibilities of the investment, but instead merely to make the sale.

In doing that, he places himself in a vulnerable position!

England's Tariff and American Products

WHEN its new tariff law became operative on November 25, England ceased to be a free trade nation and passed into the ranks of the nations who believe prosperity can best be built behind a high tariff wall. It was the second of two bold and drastic steps taken by England to improve her business position, the first being the departure from the gold standard.

Going off the gold standard gave England at one stroke the equivalent of an increase of 20 per cent in tariff and was hailed as the harbinger of better times, and indeed its immediate effect was positive, for manufacturers reported a great influx of orders, mills started up and from day to day there were reports in the British press of the unemployed being called back to their work by the thousands. In addition to that, business men found great satisfaction in the number of inquiries that were being received from foreign countries, from firms and corporations that were contemplating establishing branch factories in England—behind the tariff wall that was soon to be raised.

One thing which impelled the nation to put into operation a flat tariff increase of 50 per cent on a long list of articles, many of which are manufactured in the United States, is that knowing the tariff was coming, foreign manufacturers were hurrying consignments of goods to English ports to get them in before an embargo was placed. The British press made much of the coming of these cargoes and the cry of "dumping" was raised.

Whether the prosperity is to be permanent or not, remains to be seen, but this much is certain: England has found a way which seems to lead out of the depression, its people are encouraged, the whole nation has something to look forward to.

What this tariff will do to American business remains to be seen. Some manufacturers may view the situation with complacency and establish branch manufacturing plants over there, which may solve the problem for the manufacturer, but not for his American working man, for every time an American corporation goes abroad with a factory, that means in actuality that so many jobs leave America and go abroad. There was a time when the establishment abroad of a branch of an American factory meant little. The American public regarded it only as an evidence of American enterprise to be commended. Now it has a deeper significance. It means so many American jobs flying overseas, and perhaps in time a new import and tariff problem if the products of these factories—produced with labor having a different standard of living—start coming back to our own shores in quantities.

The English tariff wall recalls a warning that was printed in the American Bankers Association Journal a decade ago. At that time, the Fordney tariff bill was pending and Sir Arthur Balfour, of Sheffield, then deputy president of the Association of British Chambers of Commerce, came to this country with a delegation of business men to discuss our proposed new

tariff with relation to its effect on England. In an article which he wrote for the Journal, he said:

"I am told that America has a thousand million pounds sterling of gold, which is practically half of the world's total supply of gold. Gold in this volume brings serious disabilities, and I think it will be admitted by all experts in finance that too much gold in the vaults of one nation makes for poor trade and unemployment. This being the case, the only way in which other nations can trade freely with the United States is by goods for goods, and before it is too late I would earnestly plead that this important aspect of the world's trade and America's great world responsibility should have further consideration. Fundamentally the greatest asset that any nation can possess is that the other nations believe absolutely in its honesty of purpose. I fear that the other Allied nations misunderstand the proposed Fordney tariff, and feel that the vast responsibilities with which the United States is inseparably connected now have not been sufficiently recognized in the framing of the tariff. This being the case, it is certainly breeding mistrust which will have far-reaching international consequences in the future, though not appreciated at the moment."

The far-reaching international consequences intimated in the foregoing words, written in September, 1921, have now materialized.

A Challenge to Thinkers

IN the great stream of reports, statements, reviews and bulletins issued last month, no greater, however, than in any other month of the year, there is one that stands out. It is by Stephen I. Miller, director of economics of R. G. Dun & Co., in the course of which he said:

"The control of credit is the problem of the world today. Prime ministers, secretaries of state and financial envoys visit and repay visits; the flow of gold is being watched with an eagle eye; moratoriums have been declared; tariffs challenge tariffs; silver congresses have been suggested; the term 'bi-metallism' has returned to the pages of the daily newspaper; a powerful credit corporation has been organized; institutions for the promotion of home building have been formed, and gold standards have been abandoned.

"Is this the transition to a fundamental change in our economy structure? Are we about to leave the old doctrine of supply and demand, regulated by competition; are we rapidly approaching the day of managed economy; managed purchasing power; managed foreign trade; managed supply and demand? * * *

"Lest we wake up some morning, facing more difficulties than we face today, it should be remembered that managed economy means management by individuals, bureaus or commissions, directly or indirectly amenable to the whims and expediency of political parties. As wasteful and insolent as competition may be, it might be a business paradise compared to a lock-stepping bureaucracy and fanatical constituency."

Even now the "lock-stepping" that is warned against in the foregoing is in evidence in Germany where the state has meddled in business until a protest has been raised against "interventionism" and "pseudo capitalism." It is not capitalism that has failed, declares one class of thinkers, but it is the state in business that has failed and has prolonged the depression.

The Books on the Shelf

SOME years ago in a Western city, a young man working in a bank purchased a set of books and placed them on a shelf in a storeroom. Months later he bitterly complained that the books had "done him no good."

"How could they when you have not read them?" rejoined an associate. "I have read them and have derived a lot of benefit from them."

There may be today analogous cases among older and better bankers. Better bank management is one need of the hour. The way to better management is shown clearly and concisely by the literature of the Bank Management Commission of the American Bankers Association, and that literature is in the possession of most of the bankers of the country.

All of it deals with actual experiences, with methods that have been tested by practice. The discussions point to practices which are drains upon operation and show how these practices may be supplanted by methods that will at once increase profits and be more equitable to both the bank and its customers as a whole.

Take the books from the shelf, and as they are not designed for mere reading matter, put into practice those better ways that other bankers have found to be profitable!

Ways to Pay

WHEN Mr. Hoover's moratorium comes up for action in Congress, the future of the great war debts owing to us in Europe will logically occupy the forefront of the discussion. However the debate runs and however public thought may crystallize, it is well to recall that by general acceptance there are but four ways in which one nation may pay a debt to another.

(1) The debtor may pay the creditor by gold. It is estimated that there is approximately $11,000,000,000 of free gold in the world, of which we but recently had five, though a great part of that was earmarked for others.

(2) By merchandise. Merchandise is not coming to us in any considerable quantities because of our protective tariff so fearfully and wonderfully made that some duties run to 150 per cent.

(3) By the transfer of territory. The United States has no ambitions for more territory.

(4) By the transfer of the securities of a third nation which are held by the debtor. In the present state of the world, this method of payment does not appear to be fruitful.

Operating against the payment of reparations and war debts is a changing attitude in the world. What was once merely a faint hope that the debt might be forgiven is now being replaced by a more positive state of mind.

The American taxpayer has not thus far been much concerned over the foreign debt because the American investor has been sending his money abroad and thus indirectly making payments to us easy. But the American investor seems to be through for the present, and the burden of taxes is now likely to stimulate the thinking of the taxpayer.

What Gold Means to Banks

By JOSEPH STAGG LAWRENCE

Is the Ancient Metallic Basis for Currency a Relic and an Outworn Fetish? Most Bankers Say It Is Not. Observed From the Perspective of Past Century and Half the Gold Standard Has Excellent Record. Two Diametrically Opposite Views.

MORE than $11,000,000,000 of gold reposes in the governmental and banking vaults of forty-five nations. It is the wager which the civilized world has made with the exigencies of time and adversity that gold will remain the fundamental medium in which the currencies of commercial commonwealths will continue to be defined and to whose value they will remain related. History may tolerate temporary aberrations such as that of England and her credit dependencies. Even in the hour of abandonment and certainly thereafter every attempt will be made to return to the saffron-hued rock of credit. So runs the brief for the defence.

IT costs the world several hundred million dollars yearly to maintain the gold standard. The expense covers storage, accounting, insurance and the interest that is lost because gold earns nothing. The writer asks whether the benefits of a stable, metallic basis for currency are worth the cost to countries which have the gold, and the inconvenience to those who have little or none. His answer is that there is no safe substitute.

Those Opposed

ON the other side are those who hold that gold is an anachronism, a heritage of barbarism which has long since outlived its usefulness. Its repudiation by England, followed by a legion of lesser nations, was long overdue. Some other system of evaluating and stabilizing credit and currency must be evolved to take its place. The maintenance of a gold standard is a luxury which an age compelled by the bitter lash of hard times to count its pennies cannot afford to maintain. It is a monstrous yellow elephant eating its head off in interest, accounting and protection costs. Unable to keep up with the needs of a twentieth century world it has plunged mankind finally into an abyss of distress which has had no equal since the industrial revolution first sounded its disturbing tocsin. It has permitted and perhaps even fostered vagaries in price levels as painful as they were unexpected. There ends the indictment recited by the prosecution.

There is no doubt that the gold standard is on trial for its life. English economists and financiers, men like Keynes, Strakosch, D'Abernon and McKenna, by no stretch of the imagination to be included among authorities whose opinions can be ruled out, uttered warnings against the resumption of the gold standard by England in 1925. The dismal course of English commercial and industrial history since those days seem to have borne out their grave forebodings. England has bade the yellow standard farewell for the time being and behold, English plants idle for years belch forth the vital smoke of activity, the roster of workless workers declines, the trade balance assumes a healthier aspect and England returns a conservative government at an election which proved to be the most decisive rebuke to radicalism in post-war Europe. Events seem to offer providential confirmation for those who resisted the re-introduction of gold in 1925.

Bimetallism has flared forth with a vitality not evident since Bryan with apocryphal eloquence saw mankind crucified on a cross of gold. The National Farm Bureau Federation with the sanction of such an economist as John R. Commons, has already appealed for some means of artificial price control free from the tyranny of the gold standard. Another reputable economist writes a book in which he speaks of the passing of the gold standard. Organizations and groups throughout the world which have felt the ill effects of commodity price declines are casting about for some painless hypodermic which will ease their crushing burden. Prophets point along a highway that leads away from gold.

The phrase "a barbaric relic" was probably coined and used for the first time by John Maynard Keynes in his colorful and incisive assaults upon the gold standard. It was intended to suggest that trade and commerce, so progressive in severing the obstacles of time and space through the media of railroads, steamships, airplanes, telegraph and wireless, so effective in multiplying the energy of man by the application of power through a thousand ingenious machines, so successful in adapting credit to the needs of domestic and foreign intercourse has nevertheless stood still in the most fundamental of all economic requirements, namely, an intelligent base for currency and credit.

Gold Glitters

PRIMITIVE tribes today and savage communities extending far back into the haze of antiquity employed gold for this very purpose. To persuade them to accept a medium of exchange for cattle, slaves and other objects of material desire it was necessary to offer something which possessed an intrinsic allure equal in power to that exercised by the object offered in return. Gold has always had this rare quality in addition to many more which make it an ideal standard of value. We repudiate in practice what we affirm in theory. We insist upon gold in the statements of our central banks and governments and yet are content to go from one

year's end to another without ever setting eyes upon the precious metal except as ornaments.

Consider this matter of cost. Since September 20, the day on which England announced her capitulation to circumstances of depression, and the end of October this country "lost" $728,709,000 in gold of which $413,-110,000 was earmarked and the balance exported. These figures are net after giving credit to imports which totalled $106,980,000. It is hardly necessary to explain the effect of this movement upon the income of the Federal Reserve System from whose resources practically all of the "lost" gold was obtained.

Metal Earns Nothing

AN alien who wishes to purchase $1,000,000 of gold for export must take an equivalent quantity of bank credit in the form of deposits or convert securities into such an equivalent, and exchange it for the gold. In whatever form the credit first existed it earned an income for the owner. Once it becomes gold this ceases and becomes on the contrary a responsibility calling for protection, physical transportation, supervision and insurance. An earning asset has been converted into an expense consuming asset. If our Federal reserve banks have "lost" $728,709,000 of gold they have eliminated the necessity of maintaining this yellow hoard and received in return credit which on a 3 per cent basis yields an annual income of $21,861,270.

This suggests, incidentally, how much it costs to maintain the balance of our gold supplies, assuming that they are a dead, non-earning asset and may be exchanged for some other credit or object which will yield an income. Our monetary gold stock at the end of October was $4,289,000,000. The advocates of a system of managed currency hold that this enormous heap of gold is an idle and wholly unnecessary tribute to an outworn fetish. Its annual cost to the nation depends entirely upon the rate of interest applied and the allowance made for maintenance and protection. Gold is rather fastidious in its storage requirements. Assuming a rate of 4 per cent to cover interest, storage supervision, accounting and insurance we find that our gold standard costs us directly $171,560,000 each year. Keynes once estimated the annual cost to this country at $500,000,000 and stated that it would average above $250,000,000 over a period of years. These sums, it must be admitted, are great in any language but whether they constitute the price of a luxury or the necessary and justifiable outlay for an invaluable instrument of exchange depends altogether upon the estimate made of the role played by gold.

The Quantity of Gold

BEFORE examining this aspect of the problem a word must be said regarding the last count in the indictment against gold, namely, that its rate of increase has not kept pace with the requirements of trade. This is an argument which has been repeated with great emphasis during the last two years of falling commodity prices since the latter have been cited as conclusive demonstration of the inadequacy of the gold supply.

Gustav Cassel, the Swedish economist, observed that prices in England in 1850, 1886 and 1910 were approximately the same, using Sauerbeck's limited index of wholesale prices. He then checked up the world's gold supply on these three dates and discovered an annual average compound rate of increase of 2.8 per cent. To this he added 0.2 per cent for abrasion and loss and concluded that an annual increase of 3 per cent in the world's gold stock would be necessary in order to maintain a stable price level. Later Joseph Kitchen, the English gold expert, made a similar study using only monetary gold stocks instead of total gold stocks. Furthermore, he used the following four periods instead of Cassel's two: 1851-1884; 1884-1907; 1844-1880; 1880-1913. His findings in substance were the same as Cassel's.

More Than Ample

THE technical phases of gold adequacy are extremely complex and cannot be discussed in an article of this character. However two facts stand out which deserve brief attention. The first is that the only gold which has any significance in the credit and price sense is that which finds its way into the vaults of governments and central banks. The second is that this vital portion of the world's gold supplies has increased at a rate during the past ten years more than ample to maintain the price level according to the findings of Cassel and Kitchen. The following figures based upon tabulations of the Federal Reserve Board show the average annual increase since 1920 in the gold supplies of various countries:

Forty-four countries	4.11 per cent
United States and France	6.62 per cent
England, Germany, Italy and Japan	1.72 per cent
Thirty-eight other countries	1.76 per cent

These figures support and do not deny that there has been an uneven distribution of the gold supply and leave free any conclusions as to the injury which may have resulted from this maldistribution.

Three Pillars

AT the present time as in the nineties the banker is found aligned with those who support the gold standard. His support of gold is accepted in some quarters as a suspicious circumstance. The banker's position may be said to rest upon three pillars, the first being the sentimental attachment to gold of those whose confidence he solicits, the second the excellent record of the gold standard when observed from the perspective of a century and half and finally the mantle of protection which it casts upon equities and obligations.

The very sight of gold has a reassuring effect. It is an age-old talisman of strength, a pledge of integrity. It is the most liquid commodity in the world and can be sold at any time and in any quantities in almost any market. Nothing else approaches this quality of the yellow bullion. Hence the banker with an eye constantly open to the possibility of demands for payment finds in gold a source of strength. To increase its capacity for reinforcing the credit of banks it has in most countries been concentrated in central storehouses from which it can be dispatched to points of peril with the utmost speed. So confidence inspiring is gold that its mere presence is often sufficient to restore faith and calm fears.

Gold's Prestige Persists

A SINGULAR illustration of this very attribute was offered at the time England abandoned the gold standard and during the next six weeks. It was freely predicted at the time that England's action was merely the prelude to a general repudiation of gold and that this country and France would be left holding a comparatively worthless asset. On the contrary there was a general rush for our gold stocks on the part of other nations determined to avoid the issue which England was compelled to embrace. Central banks proceeded at once to convert balances or securities in this country into gold for no other purpose than to be able to show them to apprehensive clients at home. Gold was serving a show-case purpose. It was not even necessary to have physical possession of the metal as the large portion of ear-marked gold, $413,110,-000, clearly demonstrates. Since bank-

(*Continued on page* 417)

Reserves and Credit Control

By A. G. EVERETT

Fundamental Changes in Methods of Calculating Reserves Recommended to Board by Special Committee. Proposed Action Would Base Requirements Chiefly on Velocity of Deposit Turnover Rather Than Net Amount of Time or Demand Funds.

IT is accepted as a matter of course by every banker in the nation that the establishment of the Federal Reserve System revolutionized banking in the United States. It will come as a shock to many an old-time banker in the country, however, to realize that the establishment of the Reserve System and membership in that system have so far revolutionized his business as to alter completely the basic conception of the nature and use of his bank's reserve funds. Time was—and many old time bankers still so regard them—when the reserves of a bank were the final measure of its ability to meet demands upon it, the measure of the liquidity of its position, its buffer against shocks, its anchor to windward. Even when the establishment of the Federal Reserve required that banks within the System deposit their legal reserves with the Reserve bank of their district most bankers still regarded these funds as their own reserves and their deposit in the central bank merely a change in the location of the funds, not a change in their nature.

In a Different Light

THE Federal Reserve authorities, however, regard these reserves in an entirely different light. They are no longer any measure of a bank's liquidity for liquidity, at least so far as legal reserves are concerned, is maintained by membership in the Reserve System and the ability of a member bank to meet demands upon it by rediscounting eligible paper. A bank's reserves, from this viewpoint, are no longer a measure of its strength or soundness but are merely the bank's contribution to the funds of the Reserve System to enable the latter to function as a central bank, as the center and core of the nation's bank credit system. They can be drawn upon in case of necessity but from the standpoint of the Federal Reserve the draft is met more as a loan than in response to demand of a legal right.

With this new conception of the nature and use of bank reserves comes the idea that the reserves of the member banks form the essential part of the machinery for the control of credit in the country. Instead of being an inert mass, locked in the vaults of the banks or deposited by the banks in a central bank where they could be drawn upon only in case of need, these funds become a living, vital force in the financial life of the country, active in every phase of the nation's business and the basis upon which all its credit operations rest.

Not Yet Approved

IT is upon this idea that the committee of the Federal Reserve which has been considering the matter of a change in the reserve requirements of member banks in the System for about a year has based the report which was made public Nov. 25. The report has yet to be approved by the Federal Reserve Board and the Reserve banks and still later by Congress. The important feature of the report is that the changes it contemplates in the incidence of reserve assessments are based upon a new principle in reserve requirements rather than in the total reserves actually required of member banks. In other words, instead of requiring reserves based altogether upon the probability of a demand upon them growing out of the nature of deposits, that is, demand or time deposits, the committee proposes that the requirements shall be based in part at least upon the activity of a bank's funds as a measure of its possible requirements.

At the present time all member banks must carry a reserve of 3 per cent against time deposits, and reserves against demand deposits of 13 per cent for central reserve city banks; 10 per cent for reserve city banks and 7 per cent for all other banks. The committee proposal does away with these distinctions and recommends that all member banks shall carry a reserve of 5 per cent against their net deposits and a reserve equal to 50 per cent of the average daily debits to deposit accounts with a maximum total reserve of 15 per cent of gross deposits.

This plan automatically makes demand deposits carry a higher reserve than time deposits and also makes more active demand deposits, such as are usually found in financial centers, carry a higher reserve than less active demand deposits such as are held by a majority of country banks.

During the preparation of the report the Federal Reserve Board committee asked the American Bankers Association and the Association of Reserve City Bankers to send representatives for the purpose of expressing the views of their respective organizations. The recommendations made by them were given full consideration by the committee.

The report of the committee gives greater weight to cash in vault by counting it as a part of the reserve than it would have as a mere deduction from deposits for the committee proposes to count as reserves both the balances with the Federal Reserve banks and cash carried by the banks in their own vaults. Prior to 1917 the cash on hand in vaults was counted as part of a bank's required reserves, but in that year the provisions of the Federal Reserve Act with respect to member bank reserves were amended so as to exclude cash in vault and include only deposit balances in the Reserve banks.

Not Quite as Expected

AT the same time reserve requirements were reduced by 5 per cent on demand deposits and 2 per cent on time deposits in the expectation that banks would continue to carry about the same proportion of cash in vault. Experience has shown that this expectation has not been realized, principally because banks located in central reserve bank and reserve bank cities have ready access to the Federal Reserve banks and can replenish their cash quickly in case of necessity. The committee believes that by allowing vault cash to count as reserves, within certain limits, banks that do not have this prompt access to a Reserve bank or branch Reserve bank will be put upon an equality with banks that are in Federal Reserve or branch reserve

cities. The report recommends that member banks located in the vicinity of Federal Reserve banks or branches shall maintain not more than one-fifth of their required reserves in vault cash and all other banks shall maintain not more than three-fifths in vault cash. Within these limits a further reduction in vault cash would not result in a decrease in total reserves since a corresponding increase in reserve balances with the Federal Reserve banks would be required.

Due Other Banks

THE committee also proposes to equalize reserve requirements as between banks in large financial centers and country banks by changing the method of calculating net deposits subject to reserve. Under present day requirements, deductions from deposits before reserves are calculated can be made only from the item "balances due to other banks"; in other words, deposits held by a member bank to the credit of another bank, including all amounts due to banks, bankers, and trust companies and certified cashiers' and treasurers' checks outstanding.

The result of this requirement is that deductible items in country banks which usually hold small deposits from other banks are practically limited to such deposits which are usually much smaller than the total of the deductible items.

They are therefore at a disadvantage as compared with the great city banks which hold large deposits from their country correspondents and which are usually much in excess of the total of their deductible items. The committee calculates that this increases the proportionate reserves of the country banks by about 1 per cent as compared with the city banks; that is, the aggregate reserves held by the country banks against net deposits is about 8 per cent as compared with 7 per cent held by the city banks. At present the deductible items include all amounts due from other banks, that is, items with Federal Reserve banks in process of collection, amounts due from banks and trust companies in the United States, balances payable in dollars from foreign branches of other American banks and exchanges for clearing-house and other checks on local banks. The committee recommends that this definition of deductible items be amended so as to include only "balances due from other member banks and their branches in the United States, all checks in process of collection, and other cash items payable upon presentation in the United States" and proposes that these items may be deducted from the gross deposits instead of from the single item of "balances due other banks." This would permit small banks to reduce their reserve requirements by the amount of all such deductible items they hold while forcing the city banks to increase their reserves when their holding of member bank balances exceeds their deductible items.

At present many city member banks are able to carry bankers' balances without increasing their reserves since their deductible items normally exceed their balances due to banks. This the country banks cannot do. With this change in the definition of deductible items and by making the deduction against gross deposits all banks, city and country, would be placed upon approximately the same footing.

The most revolutionary change in the reserve requirements recommended by the committee is that actual reserves shall be based not only on the amount of the net deposits but upon the activity of the deposit accounts. This change is important not only in the fact that it will greatly modify actual reserve requirements for various banks from time to time as business activity varies but also in the principle upon which reserve requirements are based and in the more or less automatic control of credit this provision will exercise. The principle involved is simply that, since these bank reserves in the Reserve System constitute the actual funds upon which the country's credit structure is based, "the aggregate body of reserves maintained by member banks should reflect changes in the volume and use of member bank credit by the public since it is the public's use of credit which has a direct relationship to the volume of the country's business."

Average Daily Turnover

TO give effect to this principle the committee recommends that in addition to the flat reserve requirement of 5 per cent of the net deposits member banks shall also maintain reserves equal to 50 per cent of the average daily turnover of deposits with a maximum of 15 per cent of the deposits as a limit. The committee has calculated that on the basis of deposits and turnover on May 31 last as a test date the total reserves thus required would be the same as at present but the incidence would be considerably different. The reserves would vary from the basic 5 per cent on net deposits in a bank whose deposits are stationary to slightly under 7 per cent for a bank whose turnover is once a month and to about 12 per cent for a bank whose turnover is once a week.

The committee found in its investigation that the present grouping of member banks into central reserve city banks, branch reserve city banks and country banks has not resulted in an equitable distribution of reserve requirements. In many country banks business activity is such that the present reserve requirements are unduly low while in many city banks the turnover is such as to make present reserve requirements unduly high and that "there are individual member banks in New York City carrying 13 per cent reserves against deposits that are less active than those of country banks carrying a 7 per cent reserve." Measuring reserves by deposit activities therefore does away with these inequalities by throwing the burden where it belongs, incidentally placing it upon banks which, by reason of business activity, are best able to bear it.

How It Would Work

THE influence this requirement would have upon the control of credit is rather greater than at first appears. When business activity in a community increases so as to increase a bank's deposit turnover from once a month to once a week the increase in the reserve requirements from 7 per cent to 12 per cent is certainly material. In periods of speculative booms, such as that in the stock market in 1928 and 1929, deposit accounts are especially active and it is plain that the increased reserve requirements under such conditions would exercise a very strong restraining influence upon credit policies and work to sounder credit conditions.

The calculations of the committee show that the aggregate reserve requirements of member banks would have greatly increased during the speculative period in 1928 and 1929, and would have decreased by approximately an equal amount in the following two years of business depression. The increase would have been concentrated largely at city banks whose customers were trading heavily in securities and consequently would have had a restraining influence on the speculative boom. During the farm real estate boom of 1919-1920 largely increased reserves at banks in the western, central western, and southern states would have been required. During the speculative boom in Florida real estate Florida banks would have been required to carry larger reserves, and during the stock market boom of 1928-1929, the required reserves of eastern city banks would have been materially increased. On the other hand the reduction in business activities in the depressions following the bursting of these bubbles would have automatically released these larger re-

(*Continued on page* 427)

Profits in Automobiles

By D. RICHARD YOUNG

Business Watches for Signs of Upturn in Country's Largest Industry. Stocks of Used Cars Reduced to Minimum and Dealer Situation Is Improved. Profits Show Sharp Recession from 1929 Levels. Theory of Three-Year Cycles Inspires Hope.

IN the annual reviews and forecasts that are now being prepared covering the different industries, one of the most interesting and encouraging situations is that found in the field of automobiles, trucks, parts and accessories. Manufacturing activity declined in November to only 15 per cent of normal capacity, the lowest in ten years, since which time there has been a moderate increase in operating schedules.

Signs for a genuine recovery in motor car building are being watched for with the greatest interest, for this is the leading American industry in value of product, wages paid to employees and purchases of materials from other industries. In 1929 the dollar value of passenger cars and trucks amounted to $3,577,000,000 at wholesale prices.

Every Third Year

MUCH discussion will be carried on during the coming months on the theory of the three-year cycle in automobile production. An examination of the production statistics for a number of years shows that every third year has brought a new record peak in production. This may be seen in Chart I and from the following figures covering the years of peak production in the United States and Canada beginning with 1914, which marked the dividing line between the pre-war and the modern periods:

Cars and Trucks

Peak Year	Production (Vehicles)	Value (Millions)
1914	569,054	$459
1917	1,873,949	1,274
1920	2,227,349	2,232
1923	4,180,450	2,592
1926	4,505,661	3,212
1929	5,621,715	3,577
1932	?	?

Of course there is nothing magic or infallible in a three-year cycle, yet it must be admitted that the regularity with which it has occurred in past years is unusually striking.

As to 1932, opinion in trade circles indicates that a record year is entirely too much to expect and that a "reasonable" recovery would be considered satisfactory. It is to be observed that none of the five previous peak years came immediately after the intervening low year, but in the second year following.

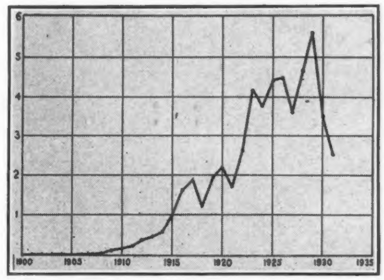


CHART I
Annual production of automobiles and trucks (millions of vehicles per year)

There seems to be universal confidence that at least some recovery will be seen next year. If that should materialize, it would suggest the possibility of complete recovery to peak levels in 1933, making the present a four-year cycle. Considering the magnitude of the present depression, the topping of the previous record year might not come until five years later, in 1934, but the exact date matters little so long as an upward trend from now on is assured.

Profits of Large Companies

CONTRARY to popular belief, the year 1928 and not 1929 witnessed the peak in profits of automobile companies, notwithstanding the fact that production in 1929 exceeded that of 1928 by 1,020,000 vehicles and $414,000,000 in dollar value. The year 1929 would have brought record profits if it had not been for the final quarter, into which were thrown various extraordinary charges incident to the sudden curtailment in operations and the excessive inventories of unsold cars on hand.

Net profits, after all expenses and charges but before dividends, of the larger manufacturers of cars and trucks are given in an accompanying table, compiled from the companies' published reports for the years 1929 and 1930, with figures for the first nine months of 1931 where available. Fiscal years end December 31 unless otherwise stated.

Net Profits of Automobile Manufacturers
(In Thousands of Dollars)

	1929 Year	1930 Year	1931 9 Mos.
Auburn Auto. Co. (a)	$3,603	$1,018	$3,338
Brockway Motor Truck Co.	280	D-3,552	....
Checker Cab Mfg. Corp.	4,280	505	23
Chrysler Corp.	21,902	234	3,771
Ford Motor Co. (b)	81,798	44,461	....
Franklin (H. H.) Mfg. Co.	1,123	D-4,197	....
General Motors Corp.	248,282	151,099	97,455
Graham-Paige Motors Corp.	D-1,464	D-4,969	....
Hudson Motor Car Co.	11,595	325	D-548
Hupp Motor Car Corp.	3,469	D-923	D-1,973
Mack Trucks, Inc.	6,841	2,008	D-259
Nash Motors Co. (a)	18,014	7,601	4,267
Packard Motor Car Co. (c)	25,183	9,034	14
Pierce-Arrow Motor Car Co.	2,566	1,317	226
Reo Motor Car Co.	1,074	D-1,989	D-1,344
Studebaker Corp.	11,928	1,540	2,496
Stutz Motor Car Co. (d)	D-2,420	D-1,162	20
White Motor Co.	2,548	D-474	....
Willys-Overland Co.	D-4,980	D-7,588	120
Yellow Truck & Coach Mfg. Co.	1,178	1,115	D-1,893
Total	$536,800	$195,403	$105,713

(D)—Deficit; (a) Years ended November 30; (b) Calculated from increase in surplus; (c) Year ended August 31, 1929; (d) Years ended October 31.

A comparison of earnings of the same group of companies over an extended period of years is impracticable because of the frequent mergers and changes in capitalization that have occurred. Taking all the companies that have published reports, however, the totals represent a large proportion of the entire industry. Aggregate net profits of the companies listed in the table together with a number of smaller companies, are given below for the years 1928, 1929, 1930 and the first nine months of 1931, also the net worth of capital and surplus at the beginning of each year and the percentage of profits return thereon. Thus, although the list of companies from one year to another is not identical, it is substantially the same and when the figures are expressed on the basis of rate of profits return they may be considered fairly comparable.

Automobile Manufacturers
(In thousands of dollars)

	Net Profits Year	Net Worth Jan. 1	Per Cent Return
1928	$399,136	$1,430,648	27.9
1929	365,105	1,552,631	23.5
1930	156,702	1,761,453	8.9
1931* ...	105,578	1,594,697	8.8

*Profits for first nine months; percentage return calculated at annual rate.

Costs Have Been Cut

IT might be noted that the results for the first nine months of 1931, indicating an annual rate of return practically as high as last year, were largely influenced by the good showing of General Motors Corporation. Earnings of the remaining companies were almost entirely offset by deficits reported. The industry in general, however, is making marked progress in the reduction of costs and even a moderate expansion in sales should be promptly reflected in a widening of profit margins.

Although the manufacture of automobile parts and accessories is considered a division of the motor industry, taken as a whole, the analysis of its operations is much more difficult. In the first place, the production of parts is subject to even greater fluctuation than that of complete cars. In Chart II the extreme seasonal character of new car production can be seen, and the fact that the seasonal curve is by no means regular, as in the case of railway traffic or retail trade, but extremely erratic, depending on a number of factors, such as whether new models are introduced in July or not until the end of the year, whether a policy of building up stocks or reducing them is pursued, whether there is a strong upward or downward movement of general business.

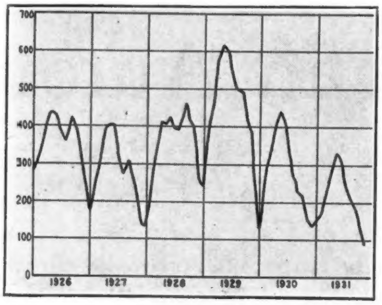


CHART II
Monthly production of automobiles and trucks (thousands of vehicles per month)

Throughout the parts and accessory industry will be found conflicting characteristics. At one time there appears to be a trend toward building the complete car in one organization—at another time the trend toward the "assembled car," where contracts will be allotted to outside concerns, each specialists in their own line, to build frames, bodies, engines, transmissions, starting and ignition apparatus, carburetors, wheels, and other parts.

Demand Varies Sharply

IN some respects, the makers of parts can be assured of a fairly steady replacement demand year in and year out, once they have a large distribution of their equipment in use. On the other hand, when their original equipment business is limited to a few or even a single large customer, they are subject to the whims of a small group of buyers who may insist that they operate day and night for a period to rush production and then these buyers may suddenly direct them to suspend shipments.

Such of the parts and accessory manufacturers as have built up a large market for their product and command sufficient capital to prevent their being dictated to in the matter of prices and terms probably enjoy a security that exceeds that of the manufacturer of complete cars. The latter must be finding new markets constantly and must pay for his parts, regardless of whether or not he makes a profit on his own operations. A table accompanies this article showing the net profits of the larger manufacturers of parts and accessories, compiled from published reports.

Although the number of companies that publish quarterly statements is only about one-third of the total that publish annual statements the nine months' figures are believed to be fairly representative. A close correspondence will be found between the

(*Continued on page* 419)

Net Profits: Auto Parts and Accessories
(000's omitted)

	1929 Year	1930 Year	1931 9 Mos.
Ainsworth Mfg. Co.	$1,040	$299	$4
Allied Products Corp.	800	D-139	....
Bohn Aluminum & Brass Corp.	2,619	724	913
Borg-Warner Corp.	7,683	2,318	1,267
Briggs Mfg. Co.	2,427	4,036	1,077
Briggs & Shatton Corp.	1,499	882	328
Budd (Edw. G.) Mfg. Co.	1,534	21	D-123
Budd Wheel Co.	1,791	1,457	555
Campbell, Wyant & Cannon	1,279	639	254
Clark Equipment Co.	1,310	346	74
Continental Motors Corp. (a)	711	*D-2,038	....
Eaton Axle & Spring Co.	1,502	1,205	449
Electric Auto-Lite Co.	14,514	5,043	3,741
Elec. Storage Battery Co.	7,911	5,647	....
Hall Lamp Co.	1,159	D-44	....
Hayes Body Corp.	D-245	D-853	....
Houdaille-Hershey Corp.	2,820	D-157	....
Kelsey Hayes Wheel Corp.	3,316	2,262	....
Midland Steel Prod. Co.	2,555	1,272	*811
Motor Products Corp.	2,141	587	205
Motor Wheel Corp.	3,480	987	D-38
Mullins Mfg. Co.	477	D-332	102
Murray Corp.	1,308	234	D-505
Reynolds Spring Co.	115	D-200	....
Spicer Mfg. Co.	2,120	40	D-411
Stewart Warner Corp.	6,839	1,262	D-1,012
Thompson Products, Inc.	1,231	106	120
Timken Detroit Axle Co.	1,513	842	....
Timken Roller Bearing Co.	14,155	7,524	2,000
Trico Products Corp.	2,250	1,908	1,475
United Amer. Bosch Corp.	881	D-366	D-354
Young Spring & Wire Co.	2,213	1,295	618
Total	$94,948	$36,707	$12,350

(D)—Deficit; (a) Year ended October 31; (*) Before certain charges.

A Credit Paradox for Congress

By GEORGE E. ANDERSON

Bank Loans Have Shown Steady Tendency to Decrease in the Face of an Abundance of Funds Available Through Federal Reserve System or Directly from Institutions Themselves. Chief Problem of Session Is to Put Credit Mass Again in Motion.

"CREDIT" is the open sesame of banking and business legislation in the coming session of the Congress. A strong, perhaps an overwhelming demand for the extension of credit facilities in many lines; a vigorous and determined movement to control this extension of credit facilities—these are the underlying principles of all probable legislation directly affecting the country's banking and general business situation.

With member banks in the Federal Reserve holding upward of $2,900,000,000 in paper eligible for rediscount, about half of which is held by country banks, and with all banks as a whole holding abundant cash resources of this and other varieties it would seem that there is no particular occasion for worry as to the credit situation of the country. Nevertheless practically all bills in Congress, the trend of Congressional discussion and preliminary committee reports all show determination in the direction of broadening the basis of credit. For many months the Federal financial authorities have been endeavoring so to control the Federal Reserve and other policies of the Government as to maintain at all times an abundance of cheap money for the financing of the country's business. That policy seems to have been as successful as any such policy could be under the extraordinary conditions obtaining in the business world, but in spite of it an anomalous situation has developed.

Bank Loans Down

WHILE there has been a tremendous volume of credit available through the Federal Reserve and with an abundance of funds in the banks far more than sufficient to finance the business of the country, there has been a steady decrease in bank loans, especially in the past few months. This decrease has been particularly great in the proportional volume of ordinary bank loans devoted to the financing of the country's ordinary commercial, agricultural and industrial business. Whether this decrease in loans is due primarily to the caution of bankers, the necessity on the part of most banks to maintain unusual liquidity and a general restrictive policy with respect to loans or whether it has been due chiefly to a decreased demand for loans the actual result has been the same. The reaction among legislators has been an increasing disposition further to liberalize the national credit policy, to pile Pelion on Ossa in the way of credit facilities, in a strenuous endeavor to quicken business activities.

Credit Needs Thawing

THIS disposition to broaden the credit facilities of the country has preeminently taken the form of efforts to thaw out vast resources held by thousands of banks in the country frozen by current business conditions and to afford rediscount facilities which will prevent the freezing of such assets in the future. The organization of the National Credit Corporation has been designed to afford an emergency institution to deal with these conditions, but as a means of affording permanent facilities for dealing with such conditions there is a strong party in Congress and out of it which is in favor of extending the eligible paper list of the Federal Reserve so as to increase vastly the variety and volume of paper which the Reserve System can discount. Previous to the present situation in the country's banking there was a movement favored by some Reserve authorities in favor of extending the list to include municipal and other government bonds and even bonds of certain corporations and other paper, the loans on which are usually included in the category of "lombard" loans. Under the stimulus of present conditions it is now proposed by some influential members of Congress to extend the list so as to include all sound assets of a solvent bank; certain bonds and warrants of states, counties, cities, or other tax districts; installment financing; and even certain classes of real estate paper—in short, it is proposed that high finance be extended not only to include a house and lot but also the kitchen stove.

Against this movement, as might be expected, there is strong opposition. Senator Carter Glass of Virginia, chairman of the Senate subcommittee making a special investigation of the banking and credit situation of the country, has voiced his opposition to any scheme to "clutter up" the Federal Reserve with any doubtful paper and perhaps what Senator Glass opposes will not be done. Senator Glass's sub-committee is expected to formulate its report and a bill for the amendment of the Federal Reserve Act for submission to the full Senate Finance Committee early in December. It is anticipated that the basis of credit at the Federal Reserve will be broadened somewhat but not radically. One of the avowed objects of the committee is to evolve some plan to prevent the excessive accumulation of Federal Reserve credit resources in New York with special regard for the use of such credit in stock speculation. As bearing upon this phase of banking it is anticipated that the committee's bill will include amendments to the Federal Reserve Act for a change in the method of calculating the reserve of member banks, probably adopting the recommendations in the recent report of the Federal Reserve Board's committee on the subject with some changes. It is also anticipated that the new rule of the New York Clearing House against the placing of "loans for others" will be embodied in the bill and with these reforms established other provisions of the bill in regard to the Federal Reserve System will be much less radical than heretofore anticipated.

Real Estate Paper

WHATEVER "cluttering up" of the country's rediscount facilities there may be is likely to be in the way of new institutions. The organization of the National Credit Corporation represents one phase of this credit extension movement, but its

(*Continued on page* 424)

A Recipe for Safe Loans

By H. N. STRONCK

Problems of Diversification, Safety and Liquidity Must Be Solved in Accordance with Special Conditions Existing in Each Bank and Its Community. Individual Requirements Can Be Determined Accurately by Methods of Test and Analysis.

AFTER the primary and secondary reserve requirements have been met for each group of deposits—time, demand and public funds—the balance of such deposits, available for conversion into assets, should be converted into either the loans and discounts portfolio or the investment account portfolio; also the size of the loan portfolio should be dependent upon the availability of sound and liquid loans properly diversified.

The outlet for loans must be evaluated first in accordance with the following three major factors:

Diversification possibilities as to the type and character of credit risks and size of loans.
Safety of credit risks.
Possible liquidity, or turnover, of loans.

Hard to Diversify

PROPER econmic diversification, that is, by nature of the business of the borrower, is most difficult to obtain locally in the majority of small communities and even in some large geographical areas. The bulk of local loans in small agricultural communities is limited to farmers and live stock raisers, individuals and small business concerns whose financial positions are subject to agricultural or live stock conditions in the area. Restrictive diversification is even more intense in specialized agricultural areas when financial conditions are dependent upon the fortunes of but one type of commodity, or in such communities as are dependent upon the successful operation of one or two industrial plants.

To secure loan portfolio diversification, in such instances, it is necessary to obtain an appreciable amount of "outside" loans, or loan participations, but the difficulty encountered here is the difficulty of the local banker to evaluate such credit risks. In other types of communities, such as residential suburbs of large cities, the local loan demand is insignificant and then largely limited to loans to individuals and on real estate. In other communities the local loan demand, with sound credit risk, is so great that it could absorb the available deposits of the community and more.

Multiple banking systems, be they regional branch or group systems, are supposedly founded on the principle that diversification of loans can be obtained and the fluctuations in local loan demand between communities effectively handled. Regardless of local conditions if the loan risk cannot be properly spread locally, for the sake of liquidity and safety, it must be spread by the placement of monies outside of the community.

How to Test Diversification

THE present economic diversification of loans can be most readily ascertained by classifying the loans in accordance with the nature of the business of the borrowers and then indicating, on a table, the number and aggregate dollars involved in each class, and the percentage of each to the grand total. Then the past history and present economic status of each group should be studied, to indicate whether or not curtailments should be made in any group, or if some groups should be enlarged. An analysis of past losses in each economic group and a liquidity and safety analysis of each loan item in each group, will throw considerable light upon the economic position of each.

The classification of items in the loans and discount portfolio is rather wide in some banks and may be made wide in others. It may include:

1. Local loans.
2. Mortgage loans.
3. "Outside" accommodation loans or loan participations.
4. Commercial paper.
5. Bankers acceptances.
6. Call loans.
7. Loans to concerns of a national credit rating.

Classes one to three are usually encountered in all banks. Classes four to seven are encountered in banks where the local loan demand is quite small and during times when the rate of income on such loans is attractive. The attractiveness of rates appears to be a more deciding factor than diversification and liquidity, for under present low open money market rates, these types of loans have either entirely disappeared, or are in a low position in many country banks whose position in these was high during high open money market rates.

In the construction of fund conversion plans, items four to seven, although they are termed "loans and discounts" on the balance sheet, are usually eligible for secondary reserve requirements, and hence are allotted in the secondary reserve requirement percentages. However, their place in the loans and discount portfolio is necessary in many instances, in order to secure proper economic diversification.

According to Security

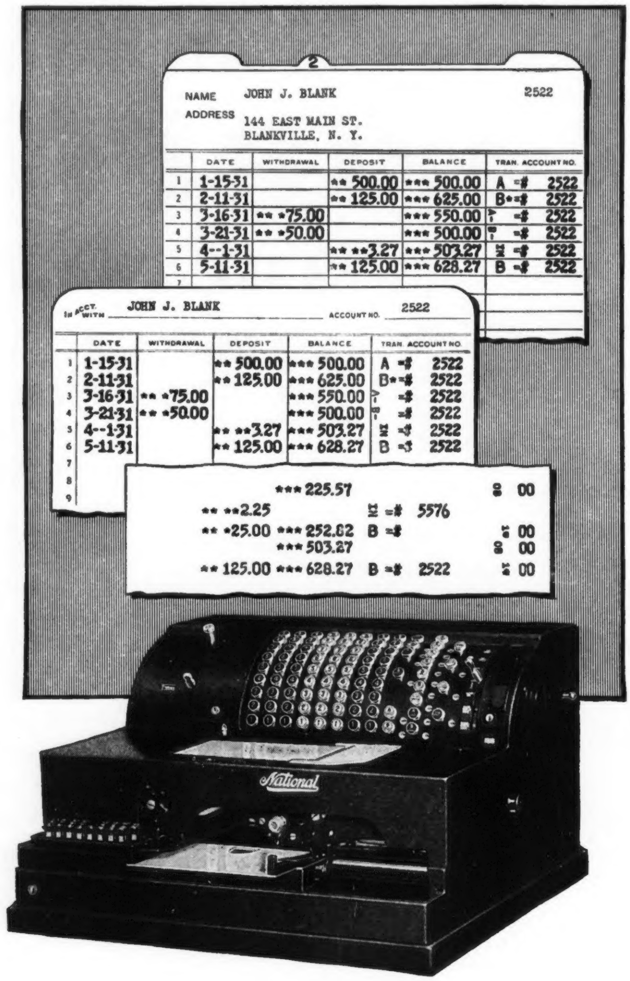
THE second type of diversification is by nature of the security. Typical diversifications are in accordance with the following major groups:

1. Open or unsecured.
2. Endorsed. (Two or more name paper)
3. Secured by:
   (a) Marketable securities.
   (b) Local securities.
   (c) Real estate senior obligations.
   (d) Real estate junior obligations.
   (e) Warehouse receipts.
   (f) Chattel and crop mortgages.
   (g) Customers' notes receivable.
   (h) Miscellaneous collateral usually difficult if not impossible, to liquidate even at a decided sacrifice.

Here, again, in many communities, diversification is difficult. In some communities it is impossible, for example, to secure any appreciable volume of loans secured by marketable securities. In others the real estate situation is such that it would be extremely hazardous to loan any appreciable amounts on such security.

The present security diversification can be most readily ascertained by classifying the loans in accordance with security and the preparation of a table which indicates the number of loans and dollars involved in each group and expressing these as a percentage of the grand total. An analysis of the loss history of each group and an analysis of loans in each group as to the present safety and liquidity factor will give valuable information

(*Continued on page* 422)



Three original printings of a transaction on ledger card, on passbook and journal sheet.

Of the

Twenty-Five

largest savings banks, Twenty-One use National Posting Machines

In a comparatively few years National Posting Machines have been accepted by leading banks as the outstanding method of handling savings accounts. Large banks which started with a few machines are now using twenty-five, fifty and seventy-five. Scores of smaller banks find one machine sufficient for their needs. Of the twenty-five largest savings banks in the country the following use National Posting Machines.

Bowery Savings Bank	New York City	East River Savings Bank	New York City
Emigrant Industrial Savings Bank	New York City	Lincoln Savings Bank	Brooklyn, N. Y.
Williamsburgh Savings Bank	Brooklyn, N. Y.	Brooklyn Savings Bank	Brooklyn, N. Y.
Central Savings Bank	New York City	Franklin Savings Bank	New York City
Bank for Savings	New York City	Provident Institution for Savings	Boston, Mass.
Dime Savings Bank of Brooklyn	Brooklyn, N. Y.	Hibernia Savings & Loan Society	San Francisco
Dry Dock Savings Bank	New York City	Savings Bank of Baltimore	Baltimore, Md.
Greenwich Savings Bank	New York City	Dollar Savings Bank	New York City
Union Dime Savings Bank	New York City	Harlem Savings Bank	New York City
Seamens Bank for Savings	New York City	Buffalo Savings Bank	Buffalo, N. Y.
Society for Savings	Cleveland, Ohio		

THE NATIONAL CASH REGISTER COMPANY

DAYTON, OHIO

The Condition of Business

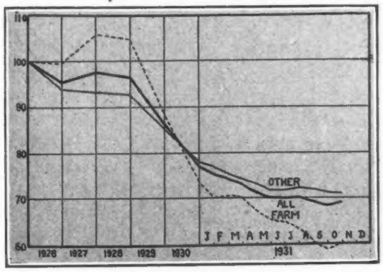
Expected Upturn Lags. Essential Readjustment Between Individual Income and Cost of Living Continues. Numerous "Non-Essential" Proposals. Brokers' Loans Liquidated 89 Per Cent from 1929 Peak, All Loans Down $9,000,000,000 or One-Third.

ALTHOUGH business activity still lacks evidence of any material upturn, the past month has brought further correction to the one maladjustment at the root of the worldwide industrial depression, namely, the disparity existing between individual income and cost of living. When prices of raw materials dropped to a lower level, the purchasing power of the producers was automatically reduced in terms of other commodities. Then wage rates began a broad but much slower downward movement, which reduces manufacturing costs and in time is passed on to the public in cheaper prices for goods at retail. Most basic raw materials now appear to have stabilized and to possess the power to rally sharply when occasion warrants, as in the case of wheat and silver, whereas the cost of living is still declining, as measured by prices of food, clothing, fuel, rents and miscellaneous articles.

Slow in Altering

IT is the slowness with which certain economic relationships can be altered that prolongs and intensifies a period of depression or readjustment. It delays the return to the only condition under which goods and services can be exchanged freely. In the early period of economic life, before the minute division of labor developed or the use of money was introduced as an intermediate step in every transaction, the producer of one product made a direct exchange or "barter" with the producers of other products, and the relative supply and demand automatically and promptly fixed the "price." Then it was a simple matter for the man out of work to trade his services to the man with a surplus stock of commodities. Today there are many stages in the production of a product; every party to it is paid in money, and naturally tries to make his own share as large as possible.

Three essentials to completing the readjustment to the lower level of prices and income now prevailing include: (1) Lower government expenditures, indebtedness and taxes; (2) Lower transportation costs, the largest item in which is railroad wages, and (3) Lower building costs, corresponding with the drastic reductions in building materials. None of these charges is immovable and time will doubtless bring them all back into line.



Bureau of Labor indexes of wholesale prices for all commodities, also for farm products and other (non-agricultural) commodities. 1926=100

Industrial balance is essential and, considering the extremely low level to which general activity has declined, even a reasonable balance could easily cause the present volume of business to double. Purchasing power and prosperity never come from partial employment at nominally high wage scales, but from full employment at "natural" wages, determined by supply and demand, be they high or low.

The Many Plans

IT is unfortunate that so much attention is diverted to the numerous proposed plans now in circulation that are subsidiary to the main issue and are in the class of non-essentials. It is safe to say that this country could regain a moderate degree of prosperity without such aids as: (1) A huge government bond issue, (2) Artificial stabilization of prices, (3) Prosperity in Europe, (4) Control of credit through basing reserves on "velocity," (5) A national planning board to regulate business, (6) Restoration of bimentallism, (7) Further "Buy now" campaigns, (8) Legislative solution of economic difficulties, (9) Redistribution of gold, (10) Repeal of prohibition, etc., to mention only a few of the proposed remedies that contain some truth and some nonsense.

Liquidation of Loans

PRELIMINARY figures that have been made available by the Federal Reserve Board covering the condition of all member banks on September 29 last show that the decline in bank loans and discounts was even greater than that indicated by the weekly reports of the selected list of banks located in the larger cities. In other words, the position of the larger banks has been better maintained than that of the much greater number of small, country banks. Part of the decline in the totals for the latter group has of course been caused by the voluntary and involuntary liquidation that has occurred.

Taking the total of bank loans secured by stocks and bonds of all member banks, the high point on the quarterly figures was in 1930, but this included a large amount of stock exchange loans taken over when the outside loans made by non-banking lenders were withdrawn, and the real peak of credit of all kinds was around October 4, 1929, when the secured bank loans stood at $10,314,000,000. On September 29, 1931, the total had been reduced to $8,088,000,000. At the time of the credit peak, however, there was outside money loaned directly to brokers in the amount of nearly $4,000,000,000, which has now been banned by the New York Clearing House banks and has dwindled to a few million dollars. The reduction in all secured loans, therefore, was from over $14,000,000,000 to $8,000,000,000 or by more than $6,000,000,000.

Brokers' loans during the period declined from a peak of $6,804,000,000 to $751,000,000 or by 89 per cent. Of every dollar borrowed against stocks slightly more than two years ago, only eleven cents is still owing—a liquidation that is unprecedented.

All loans of all member banks, including both secured and unsecured or commercial loans, declined from $26,165,000,000 to $20,902,000,000, and if the $4,000,000,000 outside

loans be added, the decline in credit has been from over $30,000,000,000 to less than $21,000,000,000 or practically one third, since the indicated totals in October and November showed a continued decline.

Improvements in Bank Situation

IN addition to the continued paying off of bank loans, there are a number of other favorable developments in the banking situation that have practically removed it from the major problems or causes of apprehension in the business outlook.

Withdrawals of gold on a huge scale in October, accompanied by unpleasant rumors from abroad as to the soundness of the American money market, have entirely subsided and November brought a return flow of approximately $100,000,000, the largest imports in a single month since 1917. This will prevent the base of our credit structure being forcibly contracted by the loss of gold reserves.

Operation of the National Credit Corporation has removed the danger of forced selling of high grade securities by the banks to meet the withdrawal of deposits, and thereby removes pressure from the bond market that has caused depreciation in the holdings of bonds by all banks.

Circulation of currency, after increasing by large amounts over a period of weeks has now turned downward, indicating that the widespread fear on the part of the public has subsided.

Bank failures have shown a marked decrease during the past month. According to figures compiled by the Federal Reserve Board covering the period from January to October 31, 1931, a total of 1753 banks suspended payments, their deposits aggregating $1,461,852,000. In the same period, 220 banks that had previously suspended were reopened, with deposits of $126,339,000. In November preliminary figures indicate that approximately 200 banks suspended, indicating a total for the full year 1931 in excess of 2000. The worst month on record was October, when 512 banks having deposits of $566,686,000 closed their doors.

There are good reasons for believing that the worst of the period of bank failures has passed, although it will be a matter of some time before the recovery of the bond market and the payment or amortization of mortgage loans will put the banks in as sound a position as would be desired. A higher level of interest rates than those prevailing during the early part of the year will improve bank earnings.

Of the three key industries, the probability of a nearby upturn appears most promising in automobiles which is the subject of a special article in this issue of the JOURNAL. Steel production has recently been increased slightly to above 30 per cent of capacity level, this improvement being contra-seasonal, inasmuch as the usual trend in November and December is downward. At the low point, production was about equal to the 1905 rate. About 25,000,000 tons appear now to be promised for the calendar year, against 39,595,268 tons last year and 54,850,433 in the record year 1929. Automobile production is counted on for the principal outlet in the near future, while buying by the railroads, machinery and farm implement manufacturers, building contractors and miscellaneous users is still subnormal. So long as the rate holds below 50 per cent of capacity, practically none of the producers can make anything above their fixed charges, if that much, except the companies turning out special alloy and stainless steels.

Building construction still lags. Industries supplying materials are running at low ebb, cement prices have been cut to the point of vanishing profits and the lumber industry is preventing accumulation of unsold stocks only by adhering to minimum schedules of production. The Dodge Research Service believes that the most important recent events that are likely to bear on ultimate revival of the building industry occurred outside the building field. Revival of business and financial confidence from a state verging on panic toward a more healthy anticipation of constructive solutions of underlying financial problems, together with some indications of upturns in commodity prices have given business sentiment a more wholesome and hopeful tone, and while this turn of sentiment is the essential first step toward recovery, it has not yet gathered sufficient momentum to affect favorably business volume or construction volume figures.

Mortgage Bank Plan

DESCRIBING the Hoover plan for creating mortgage banks of rediscount as the "first light on a dark horizon," Harry S. Kissell, president of the National Association of Real Estate Boards, whose membership comprises real estate boards in 562 cities, has issued a call for a special meeting of the Association's Executive Committee to aid in presenting this matter to Congress. It is proposed that a group of twelve Federal home mortgage banks be established under the supervision of a Federal Home Loan Board, to function in a manner similar to the Federal reserve banks, Federal farm loan banks and Federal intermediate credit banks.

Of course, the idea that there is permanently less building to be done is no more tenable than any other idea that there is less work to be done than two years ago. The monthly bulletin of the Building Construction Employers' Association for November stated that if in every state, county and city in the United States, no new construction were erected during the next two years and efforts were principally concentrated on modernization, slum rebuilding, etc., every mechanic in the thirty or more branches of the national building industry could bank on steady employment for this length of time. No municipality can proudly say there is no work of this nature to be done.

Textile Activity Maintained

COTTON goods manufacturing, one of the oldest industries in America and one of the largest, appears to have practically returned to normal conditions, that is to say, production has run fairly constant for several months, sales are on the increase one week and a decrease the next, the trade closely watches the statistical position of raw cotton and the goods mills are making some profits. Of course, total operations represent only a part of the capacity of the industry, but there is a good deal of obsolete capacity in existence that never will be used and must be scrapped eventually.

Consumption of raw wool by American mills is running ahead of the corresponding months of 1930. There has been a trend in fashions toward woolens and worsteds. A number of strikes in Lawrence, Mass., and elsewhere have recently been settled and many thousand textile workers have returned to the mills.

Imports of raw silk have been unusually heavy, caused in part by the disturbances in Manchuria. Volume of silk production and sales has held up very well this year, running ahead of 1930 for most lines. Unusually keen competition prevails, and profits have been adversely affected by the decline in prices, the prevalence of cut-rate sales and the failure of many concerns in the cutting-up and retail trades.

Rayon production, after running at a heavy rate during the first nine months of the year, has been curtailed

(*Continued on page* 410)

Condition of Business

(*Continued from page* 408)

15-20 per cent for the purpose of reducing unsold inventories at the year-end. Guarantees offered by producers against future price changes have recently been withdrawn.

The automobile tire industry has had a good volume of business in 1931 and, like textiles, has apparently passed its depression point and worked upward to supply the sheer replacement demand, which may be counted upon to give it continuing support. There are still a considerable number of small and weak concerns in the manufacturing field, and the cheap prices of crude rubber (4½ cents per pound) and cotton (5 cents) have encouraged them to make tires to undersell the standard makes. Some reductions in tire prices were announced recently, but this will not seriously hurt the large companies, considering the lower prices at which raw materials may be purchased. Some inventory losses must be taken on 1931 operations.

The same conditions are found in the shoe industry. Prices of hides and leather are much lower than a year ago, and shoe production is larger, the gain being confined to the low-priced footwear. Some of the large factories are running on a 24-hour schedule. In the retail end, conditions are highly competitive and some of the shoe chains have had difficulty in holding up their profit margins. Apparently there has been some swing away from popularity of chain stores handling shoes exclusively, and in favor of the chains of shoe departments in large department stores that can carry part of the overhead. A recent study by the Graduate School of Business Administration, Harvard University, on "Operating Costs of Shoe Chains in 1929" shows that some of the newer chains find the scale of rents contracted in 1928 and 1929 leases takes a disproportionate share of gross profits.

The Railroad Problem

ALTHOUGH a settlement of the crisis in railroad credit brought about by the decline in earnings and the fixed scale of wages is one of the major problems, it is difficult to tell what kind of an agreement will finally be worked out by the five groups participating in negotiations—the railroad managements, labor unions, Interstate Commerce Commission, committees of shippers and associations of railway security holders. Apparently the wage issue is the chief stumbling block to a settlement.

Nevertheless, a sweeping discrimination against all railroad bonds is quite unwarranted. Bonds of many railroads have sold down to reorganization prices, whereas the monthly reports on income show that interest charges will be covered this year with a margin to spare. Following are some of the important roads which, according to a recent analysis by the Standard Statistics Company which is believed to be conservative, will more than cover their fixed charges:

Estimated 1931 Earnings to Fixed Charges

(Based on nine months figures)

	Per Cent
Atchison System	300
Atlantic Coast Line	133
Baltimore & Ohio	124
Boston & Maine	153
Buffalo & Susquehanna	297
Chesapeake & Ohio	372
C. B. & Q.	259
Chicago Gt. Western	154
C., R. I. & P.	111
Cin., N. O. & T. P.	176
Clinchfield	107
Colo. & Southern	128
D. L. & W.	113
Great Northern	122
Int.-Gr. Nor.	115
K. C. Southern	123
Long Island	256
Louis. & Nash	115
Maine Central	105
M. K. & T.	117
Missouri Pacific	116
N. Y. Central	110
N. Y., N. H. & H.	147
N. Y., O. & W.	133
Norfolk & Western	550
Northern Pacific	118
Pennsylvania System	127
Pitts. & Lake Erie	226
Reading	120
Southern Pacific	134
Texas & Pacific	140
Union Pacific	237
Virginian	184
Western Maryland	127
Wheeling & Lake Erie	187

Bonds of these and other railroads may be counted on to recover unless the railroad situation should become much worse in 1932 and recovery in traffic should be entirely lacking.

An unusually light volume of new offerings has enabled previous outstanding issues to be digested, and a large amount of bonded indebtedness has been recalled this year through sinking funds, calls for redemption and purchases in the open market. When investment conditions become more nearly normal, the attractiveness of bonds of the strong railroads should be much greater than that of new offerings that are unseasoned. Sustained recovery in the market for high grade bonds would be one of the most encouraging signals for general recovery in business that could occur.

Corporation Profits

Figures compiled by Ernst & Ernst from the published reports of corporation earnings for the first nine months of 1931 disclose that the aggregate profits of 670 companies were 34.93 per cent less than during the first nine months of 1930. Industrial concerns showed the sharpest recessions.

Association Activities

Spring Meeting

THE date of the 1932 Spring Meeting of the Executive Council of the American Bankers Association will be April 25, 26 and 27 and the place will be the Greenbrier Hotel, White Sulphur Springs, W. Va. Special trains will be available for Council members and their families, arriving at White Sulphur Springs on April 24. The 1932 meeting will be one day shorter than usual, ending with the Family Dinner Wednesday evening, April 27. For the departure, special trains will leave shortly after midnight the morning of April 28.

1932 in Los Angeles

THE Annual Convention of the American Bankers Association for 1932 will be held in Los Angeles Oct. 3, 4, 5 and 6. This will be the fourth time the Convention has met in Los Angeles, having previously gone there in 1910, 1921 and 1926.

Nashville Proceedings

THE Bank Management Commission announces the publication of the proceedings of the Southern Bank Management Conference held at Nashville, Tenn., Nov. 5 and 6. The book contains an unusual amount of practical information on current problems —prepared by bankers, for bankers and based on actual banking experience. Among the specific subjects discussed are compensating balances, clearinghouses and credit bureaus, new sources of income, secondary reserves, bonds, float costs, measured service charges, interest rates, loan analysis, agricultural paper, collateral loans and personnel. Copies will be supplied at $1 each or six for $5, by the Bank Management Commission.

Mid-Winter Trust Conference

THE Thirteenth Annual Mid-Winter Trust Conference will be held Feb. 16, 17 and 18, 1932, at the Hotel Commodore, New York City.

Eastern Savings Conference

THE Eastern Regional Savings Conference, which comprises all institutions in New England and New York interested in the savings business, will be held at the Roosevelt Hotel, New York, on Jan. 28 and 29, 1932. The conference is sponsored by the Savings Division, American Bankers Association. The program will concern itself with the fundamentals entering into investment in savings. The chairman of the conference committee is Henry R. Kinsey, vice-president, Williamsburgh Savings Bank, Brooklyn, New York, and president of the Savings Banks Association of the State of New York. A banquet will be held on the evening of Jan. 28. The chairman of the banquet committee is Henry Bruere, president, Bowery Savings Bank, and member of the Executive Committee, Savings Division, American Bankers Association.

Trust Proceedings

THE Trust Division has published the proceedings of the Ninth Regional Trust Conference of Pacific Coast and Rocky Mountain States held recently in San Francisco. The booklet contains fourteen addresses, together with a report of the informal discussions which took place concerning each main topic. Copies are available at one dollar each from the Trust Division.

The subjects discussed include relations with the bar, estate planning, the place of a corporate trustee in modern life, service to estates, ways to preserve estates, the responsibility of exercising discretionary powers, vital problems of taxation affecting trustees, non-legal investment liability, co-mingled funds, benefits of life insurance trusts, the value of living trusts, costs and charges, the securing of wills and trusts through agency accounts and the prospective development of the trust business.

Convention Calendar

Date 1932		State Association	Place
May	10-12	Texas	Austin
May	19-20	Indiana	Indianapolis
May	23-25	Illinois	Springfield
June	1-3	South Dakota	Watertown

AMERICAN BANKERS ASSOCIATION MEETINGS

Jan.	28-29	Eastern Regional Savings Conference, New York, N. Y.
Feb.	16-18	Thirteenth Mid-Winter Trust Division Conference, New York, N. Y.
April	21-22	Mid-West Regional Savings Conference, St. Louis, Mo.
April	25-27	Executive Council, White Sulphur Springs, W. Va.
June	6-10	A. I. B. Convention, Los Angeles, Cal.
Oct.	3-6	A. B. A. Convention, Los Angeles, Cal.

Money Without Gold

(*Continued from page* 382)

of gold other than those resulting from changes in the bank rates and similar factors characteristic of the usual trade conditions. In a sense, therefore, England was hardly on a full gold standard from 1925-1931, since she would not sell gold in amounts of less than 400 ounces; in other words, she was on a gold standard externally but not internally.

It should be pointed out, however, that England considers that she has been on a gold standard during this period, since she feels that the only requisites of a good gold standard in modern times involve a meeting of foreign adverse balances in gold but not a freedom of redemption of domestic currencies in gold. It is conceivable that, should modern nations learn to cooperate closely in the administration of the international gold standard, by operating through some device like the Bank for International Settlements, England's conception of the gold standard—which many call a modified gold standard or a gold reserve standard—will become the accepted idea of a gold standard. England's restriction upon the freedom of internal redemption, however, has commonly been looked upon as a relatively unimportant one and, as a result, it has been common to speak of England as on a genuine gold standard.

The fact that the leading countries of the world have adopted the gold standard and have made such strenuous efforts to maintain it raises the fundamental question as to why the gold standard has attained this distinctive position and whether there are good reasons for expecting that a modern nation, considering the international relations of nations, must maintain the gold standard.

Why Gold?

IT is conventional and accurate to state that the standard of value must be composed of that commodity which is generally acceptable and is one in which the masses of people have confidence. Since gold has been the standard in international trade for a long time, it is looked upon as the commodity in which the greatest group of people have the greatest confidence. Nations desirous of carrying on foreign trade have learned that gold is not only universally acceptable in world trade but also within the nations. Why is gold generally acceptable and why does it command universal confidence? The reasons appear to be found in certain funda-

mental characteristics of human beings which we frequently overlook but which we cannot afford to neglect.

Throughout the evolution of money it is found that an object becomes generally acceptable and universally desired when the people discover that, in addition to giving command over the present goods, it is best suited as a means of providing against future contingencies. In the early stages of civilization the necessities of life seemed to meet these requirements best of all. As the world progressed, a striking fact is the substitution of ornament and the metals of ornament for instruments of utility, as the storers of purchasing power and, consequently, as standards of value and media of exchange. At the dawn of the medieval period the connection between ornament and money was so intimate that they were merged almost into identity. As late as the seventeenth century the relationship was very close; the trade of the goldsmith and of the banker was much the same.

A very fundamental characteristic of human beings is their desire to stand out from and above their fellows. They wish to show their superiority in some form or other. There is ceaseless, universal eagerness on the part of every one to succeed in life. Men in every rank strain and toil to increase their command over goods and services for today, and to store up a surplus or a means of commanding the goods desired in the future. Men desire not only safety in the race for life and happiness but social position and prestige. The savage bedecked himself with ornament to stand out among his fellows; the modern rich man accumulates his fortune so he can draw a larger check.

A Deep-Rooted Instinct

THE average civilized man, if he is not fighting to increase his wealth, is fighting to save what he has in order to avoid losing caste and rank. He dreads going down in the battle. The best indication to the world that he is not only capable of meeting all the necessities of life and of accumulating a surplus for the future is in his ability to maintain his social position and to enjoy the luxuries of life. Therefore he fights for those things that will command goods in the present and serve as a reliable storehouse of value for the future. Gold and silver, especially gold, have met these requirements better than any other commodities. Gold has served as a reasonably trustworthy storer of purchasing power, hence, it has been highly acceptable. It has also satisfied, remarkably well, the desire for display and the love of ornament because of its scarcity. The necessities of life have never functioned well for any great length of time in satisfying either of these requirements, and for this reason the metals of ornament have outstripped other commodities as standards of value and media of exchange universally desired and generally acceptable.

Necessities may become plentiful, and they do not satisfy that fundamental desire for surplus, for prestige, for ornament. Indeed, the idea of an ornament is the antithesis of the idea of the necessity. A necessity may be scarce but still not satisfy the desire for ornamentation. An ornament is indicative of the capacity to waste; in general it is presumed to show that the wearer not only can command the necessities of life but can fritter away his surplus upon a mere bauble. It must be something that all want but cannot command, hence the distinction resulting from possession. It is not so much a question of the beauty as it is the question of possessing things that are scarce and expensive. We

could desire the beauty in the ornaments if others possessed them; it is exclusive possession that we desire. The utility of necessities is not determined by scarcity, but the utility of ornament and metal money is. Make wheat as common as water and still as much, probably much more, would be used.

Must Be Hard to Get

MAKE gold that plentiful and its value as ornament and as a medium of exchange would be destroyed. Its possession would confer no distinction. Any commodity liable to glut can never serve long as a standard of value. The fact that gold is money also enhances its value as ornament. The two forces are interacting. It is, therefore, to the love for display that we also must look for a fundamental explanation as to why the metals of ornament have outdistanced other metals of more general utility. But once the monetary status has been attained by an ornamental metal, then the rational side of human nature, looking to self preservation, comes into play to aid in maintaining its acceptability thereafter.

It is an interesting fact that the monetary standards which have outstripped all others and have been maintained for a great length of time, have been, and to a less extent perhaps at present are, anchored to the superfluous in life, to the frills and trinkets, rather than to the necessities. It is interesting, also, to consider the tremendous influence which these superfluous ornaments have exercised upon human beings. They occupy, in the form of our monetary standard, the central position in our economic structure, and their capacity for good or evil is almost incalculable.

It must not be inferred that all ornaments serve as standards of value or as media of exchange. Although the ornamentation characteristics will be present, other characteristics also determine whether the ornament will or will not become a standard of value. These are mentioned below. It will suffice to say at this point that while diamonds are good ornaments, they are poor standards of value and media of exchange. There are times when the standard must be called into use as a medium of exchange, as for example, to settle adverse trade balances with foreign countries, and diamonds lack the additional characteristics of cognizability and malleability necessary to the universal acceptability of the standard as a medium of exchange.

We must face the fact, however, that we are witnessing a recurrence of the usual crop of ideas as to what should be done in lieu of reestablishing the gold standard as well as the usual crop of articles by those legerdemainists who readily convert their hindsight into foresight and are saying with so much self-complacency that they foresaw just these things happening and therefore are entitled to tell how to correct the difficulties. It is rather easy to discover, however, that most, if not all, of these articles have been written after rather than before the abandonment of the standard, that officials in England right up to the last minute were uncertain as to what would take place, and that in this country leading officials closest to the situation were taken by surprise.

We are having proposals for bi-

metallism. Bryanism is with us once again. We even have had the proposal that bimetallism be established with a ratio between gold and silver of fourteen to one, even though the market ratio between the gold and silver at the time the proposal was made was about seventy-two to one. It would be difficult to conceive of a more fantastic proposal. It is a lesson well-learned in monetary experiments that a metal overvalued at the mint will drive out the metal that is undervalued. Gold would disappear at once from the country attempting to establish bimetallism with a mint ratio between gold and silver that is above the market ratio. At all times, furthermore, the country's currency system is at the mercy of the fluctuating market ratios with the result that alternating standards, not a bimetallic standard, would prevail.

Even the old die-hard bimetallists of the Bryan campaign days were forced to admit that bimetallism could exist only if an international agreement could be effected by which all nations would agree to abandon their existing standards for the bimetallic in order that there would be no place to which the undervalued specie of a country could be driven. Such a world-wide agreement was never possible for the reason that the leading nations of the world preferred to rely upon that commodity which is universally desired. As a result, the gold standard crowded the bimetallic from the face of the earth and the lessons learned should make it unnecessary to waste time in reconsidering the revival of any such fallacies. Each new generation, however, feels inclined to reexamine anew and for itself such questions. As a practical fact and as a lesson well learned from past experience, it seems beyond question that the issue of bimetallism is dead beyond recall and no discussion of it can be taken seriously.

Deficits Compel Tax Revision

(*Continued from page* 385)

taxed are compactly organized. They ask, "Why pick on us?" Moreover, they can obtain strong political hearing for that view. The working out in Congress of any bill to levy a selected group of excise taxes invariably stirs up the opposition of the lawmakers in whose districts the bulk of the production of articles proposed to be taxed is concentrated. It is only a step from this point to effective, hostile log-rolling.

Increase the rates of Federal estate tax? Of all current proposals, this probably is the one for which a large popular approval could be obtained most quickly, but which, at the same time, is the most unlikely when its practical aspects are analyzed. The professional "friend of the people" always has found it great stuff to argue heatedly for high taxes on inheritances. As a practical matter, however, talk of this kind seems intended for popular consumption rather than for serious consideration as a basis of action.

States Get Lion's Share

ALTHOUGH it may not be popularly understood, the Federal Government has largely relinquished this tax to the states by granting taxpayers a credit up to 80 per cent for state inheritance taxes paid. If Federal rates were even doubled, for sake of argument, there would be little resulting increase in Federal revenue. The states would be the major beneficia-

ries. That robs the proposal of its principal practical value.

There are, of course, elements of uncertainty which can turn the situation inside out over night. It is extraordinarily difficult to anticipate what may eventuate from a condition of each major party controlling one house of Congress. Another influential uncertainty is new expenditures. Let a proposal for a large outlay for public works, for Federal unemployment relief for unemployment insurance, for increased naval construction, or for any one of a half dozen other large expenditures, receive serious consideration and the revenue problem assumes brand new form.

None of these possibilities, however, appears to dim the prospect for extensive revision of the revenue system. Although action on other vital issues may be obscured by the vagaries of what a Democratic House and Republican Senate can wrangle out between them, there is scant room for doubting that taxes will be revised upward. That seems to be the one certainty. There is room for speculation, however, concerning just what form and degree such revision may take. That is the one uncertainty. Incidentally, it is an uncommonly interesting one, especially with the election of a President of the United States just over the political hill.

What Gold Means to Banks

(*Continued from page* 392)

ing of all kinds, international, central and commercial, depends upon community confidence the banker is rather reluctant to part with a credit base which has proved itself a touchstone of credit faith.

The critics of gold have found depressions and eras of price decline fertile conditions for agitation. Widespread general discontent can always be exploited for plausible causes since the public is inclined to be more credulous during such periods. Thus the nineties, the years immediately following the post-war depression and the present afford a propitious opportunity for those who believe a change in our monetary base desirable. Furthermore, a clear and direct relationship can always be established between current distress and the standard, however remote the items in the demonstration may be from the final truth. For example, "Prices fall because people do not have enough money to spend. Money is lacking because we have not enough gold. Therefore, falling prices are due to a lack of gold." That seems quite obvious even to the economically illiterate. It places the banker at a disadvantage since the real facts do not lend themselves with equal facility to public presentation.

Past Experience

HISTORY is rich in experiences which show the effects of a departure from a stable monetary base. In our own country we have the early colonies, the Revolutionary resort to printed currency and the Civil War experience with greenbacks. Although certain classes in every case benefited it cannot be said that the community on the whole profited. It resulted in the dissolution of equities which for just social reasons should have been maintained intact, the accumulations of the aged and infirm, the savings of the thrifty and the reserves of the prudent who provided for rainy days. Not only did it injure these classes but it discouraged virtues which are necessary to individual happiness and security as well as community progress. More recently we find Europe yielding experiences which merely repeat the earlier lessons. The banker cannot forget this.

On the other hand, much may be said for the stability of the gold standard in terms of purchasing pow-

er when considered over a long period of years. The writer in an independent study has taken the value of gold in terms of wholesale goods in this country and England over a period of 150 years from 1780 to 1930 and found that the average annual rate of change has been approximately 4.5 per cent. If we eliminate war periods, during which no standard can survive, and consider general purchasing power as contrasted to the more volatile purchasing power in the field of wholesale commodities, we find the average annual change during a shorter but fully representative period to be less than 2 per cent per year. Before dropping gold and embracing some other medium which can have had only a theoretical trial at best it may be well to give this excellent performance due weight.

Penalty on Thrift

THE banker finally is interested in obligations and investments. It is his task to act as broker for those who have funds and invest them safely. The law wisely limits him, with unimportant exceptions, to "evidences of indebtedness." He is not permitted to purchase the indefinite equities represented by shares of stock. Since gold is the anchor to which the unit of value is bound he would be blind to his own self-interest and that of his clients if he permitted a vitiation of the standard.

This task is much larger than a mere fortification of those accumulations of the affluent which provoke the ire of the liberals. Any repeated or sustained diminution of these accumulations will place a premium upon extravagance and a penalty upon thrift. Only a savage of the lowest order squanders current income and neglects prudent stores. The higher he mounts the more acute his provision for the future. This foresight takes form largely as material equipment which multiplies his effectiveness as a producer and consequently enables him to attain a higher standard of living and set aside ever greater margins to protect him in time of danger. Safety and progress of the group requires the protection of those reserves. That is the banker's larger task and he realizes that the preservation of the gold standard over a long period of time is indispensable in the discharge of that duty.

Agricultural Credit Plan

The Iowa Bankers Association has sponsored a plan for the organization of bank-owned agricultural credit corporations in various parts of the state. The task of these corporations is to provide facilities for bringing into their respective communities additional and new loaning funds for the purchase and feeding of live stock, the warehousing of grain and other agricultural purposes. An announcement issued under date of Dec. 4 says that nine of the units have already been set up—each one a subsidiary of banks in a county or contiguous counties—and are authorized to rediscount certain types of agricultural paper at the Federal Intermediate Credit Bank of Omaha. It is estimated that the corporations organized thus far can bring into their communities as much as $4,250,000 in additional funds under terms permitting them to rediscount from eight to ten times their paid up capital stock.

Profits in Automobiles

(*Continued from page* 400)

rate of return of concerns in the parts and accessory field and those producing cars, as may be seen from the following summary of available reports.

Auto Parts and Accessories
(In thousands of dollars)

	Net Profits Year	Net Worth Jan. 1	Per Cent Return
1928	$84,094	$390,652	21.5
1929	109,714	465,879	23.5
1930	33,949	507,274	6.7
1931*	10,517	206,149	6.8

*Profits for first nine months; percentage return calculated at annual rate.

A majority of the automobile manufacturers are now busy on the preparation of new models to be introduced at the National Automobile Show in New York the early part of January, and the effect of production for dealers' stocks is being felt in related industries that supply tools and parts.

An analysis has been made of the operating results of seventeen companies in the automotive field which published detailed statements covering the first half year. Aggregate net sales of this group declined from $1,239,000,000 in the first half of 1930 to $989,000,000 in the first half of 1931, or by 20.2 per cent. Total expenses declined during the same period from $1,120,000,000 to $901,000,000 or by 19.6 per cent. The resultant net profit fell from $119,000,000 to $89,000,000 or by 25.8 per cent.

A composite income account of these companies cannot be prepared on a strictly uniform basis owing to differences in accounting practice. Some statements separate such items as depreciation, interest and taxes, while others include all or part of them under cost of sales or other expenses. As the figures from one year to another are usually comparable for individual companies, however, the following comparison based on all available details will indicate the general downward trend of expenses, even though the distribution among the different items varies somewhat:

Seventeen Automotive Companies

	Six Months 1931 (Thousands)	Per Cent Change 1930–31
Net Sales	$989,154	−20.2
Total Expenses ...	900,599	−19.6
Cost of Sales ...	736,624	−20.7
Operating Expen.	11,786	−21.5
Depreciation ...	24,207	+ 0.3
Interest	5,398	− 3.5
Taxes	11,653	−16.1
Misc. Chgs. and Adjust.	11,564	−25.9
Other Income—Credit	3,018	−76.6
Net Profits	88,555	−25.8

It will be seen that the decrease in material purchases and other manufacturing charges that go into cost of sales was somewhat greater than that of other expenses, and overhead charges. Reductions in wage rates this fall will be reflected in a further lowering of this item. There was no skimping on depreciation charges for the purpose of making a better showing. Smaller reserves were set up for taxes, and income from subsidiaries and outside investments dropped sharply. Some of the miscellaneous charges were decreased because of applying against inventory the contingency reserves previously set up.

Second Half Prospects

DURING the second half of the year production has dropped steadily and the showing for the period will be admittedly a poor one. In addition, the companies engaged in the production or distribution of cars in other countries through owned branches or separately incorporated subsidiaries will be faced with the problem of adjusting these foreign holdings to the prevailing rates of exchange.

In the case of Canadian branches this would mean a write-down of 11 per cent, and for England a write-down of more than 25 per cent, which may seriously cut into the surplus accounts of certain companies. A compromise adjustment has been discussed, in which current assets and current liabilities will be taken into the consolidated balance sheet of the American company and subsidiaries at prevailing foreign exchange rates, while the fixed investment in plant and equipment will continue to be carried at cost less depreciation, since it is not considered a trading asset and is therefore no more subject to market fluctuation than would be the domestic factories.

In an industry that has expanded as rapidly as the manufacturing of automobiles, it is inevitable that in the process there will be created both financial giants and financial wrecks. Several years ago an authoritative statement was made that in the history of the industry, more than 1,000 companies whose names were well known to the public had passed out of the picture—some of them through merger, the majority through failure.

This largest manufacturing industry in America is only a generation old, and 95 per cent of its growth has been attained since 1914. The financial strength of General Motors Corporation has been traditional, and it is now in the select list of "billion dollar corporations," numbering twenty-seven, in which it ranks thirteenth, measured by total assets.

A number of other companies have had a phenomenal rise, and after more than two years of depression are still in an enviable position. Hudson Motor Car Company, for example, on Nov. 30, 1921, had a net worth represented by capital and surplus of $12,496,000, which was built up each year from surplus earnings retained after payment of dividends to $59,279,000 on Dec. 31, 1929. During this period, the average ratio of its sales to merchandise inventory was 16.29 times, of sales to working capital 8.57 times and sales to net worth 3.99 times.

Nash Motor Company, as another example, had a net worth on Nov. 30, 1921, of $17,928,000, which had been built up to $53,658,000 on Nov. 30, 1929, in addition to the dividends paid out in the meantime. This company's sales averaged 16.25 times merchandise inventory, 3.01 times working capital and 2.40 times net worth.

As illustrating the liquid condition of the leading companies, General Motors Corporation reported on June 30 last current assets of $417,093,000 against current liabilities of $88,441,000 or a ratio of 472 per cent; Chrysler Corporation current assets of $87.597,000 against current liabilities of $14,818,000 or a ratio of 591 per cent; Auburn Automobile Company (May 31) current assets of $16,252,000 against current liabilities of $4,460,000 or a ratio of 364 per cent; Hupp Motor Car Corporation current assets of $32,604,000 against current liabilities of $2,883,000 or a ratio of 1,131 per cent; Reo Motor Car Company current assets of $16,913,000 against current liabilities of $1,962,000 or a ratio of 862 per cent; Studebaker Corporation current assets of $26,074,000 against current liabilities of $4,590,000 or a ratio of 568 per cent; White Motor Company current assets of $26,402,000 against current liabilities of $2,357,000 or a ratio of 1,120 per cent and Willys-Overland Company current assets of $13,328,000 against current liabilities or a ratio of 320 per cent.

Aggregate Net $2,924,487,000

IN contrast with the large and prosperous companies, little is heard of the smaller and less successful manufacturers who are unable to maintain the pace set by competition. A picture of the dark side of the industry may be had from a study of the an-

nual reports on "Statistics of Income" issued by the Treasury Department, the latest of which covers the year 1928.

A summary of the income of all corporations in the automobile and parts field shows that over a period of ten years, only thirty-one out of every 100 companies reported a profit, the remaining sixty-nine showing a deficit.

Aggregate net income of the corporations reporting net income in this period was $2,924,487,000. Out of this income and profits taxes of $468,-933,000 were paid, leaving a balance of $2,455,554,000.

Total deficits of the corporations reporting no net income came to $580,398,000—a surprising sum in an industry that was commonly regarded as the leading symbol of prosperity. Deducting these deficits from the profits, less taxes, leaves a net profit to the industry of $1,875,156,000, for the entire period from 1919 to 1928 inclusive, excepting the year 1925 for which detailed figures were not published.

New Books

FRAUD: ITS CONTROL THROUGH ACCOUNTS. By George E. Bennett. Published by the Century Company, New York.

A PICTURE OF WORLD ECONOMIC CONDITIONS AT THE BEGINNING OF 1930. Published by National Industrial Conference Board, Inc., New York.

OUR FINANCIAL SYSTEM. By Albert S. Keister. Published by the Macmillan Company, New York.

MARKET RESEARCH AGENCIES. A Guide to Publications and Activities Relating to Domestic Marketing. Published by United States Government Printing Office, Washington, D. C.

FINANCIAL STATISTICS OF CITIES HAVING A POPULATION OF OVER 30,000. 1928 (Annual). Published by United States Government Printing Office, Washington, D. C.

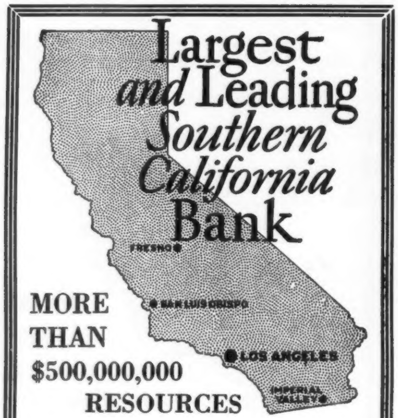
APPRAISERS AND ASSESSORS MANUAL. By W. L. Prouty, Clem W. Collins and Frank H. Prouty. Published by McGraw-Hill Book Company, Inc., New York.

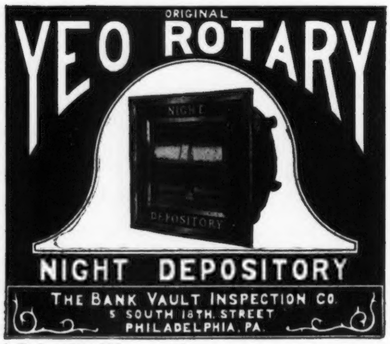
LAND VALUES IN NEW YORK IN RELATION TO TRANSIT FACILITIES. By Edwin H. Spengler. Published by Columbia University Press, New York.

WAGES AND THE ROAD AHEAD. By James D. Mooney, with the collaboration of Otis Peabody Swift. A new approach to the problem of wage reductions. Published by Longmans, Green & Company, New York City.

THE SEVEN KEYS TO RETAIL PROFITS. By Clyde Bedell. Income producing methods explained and analyzed. Published by the McGraw-Hill Book Company, New York City.

SUCCESSFUL LIVING IN THIS MACHINE AGE. By Edward A. Filene, in collaboration with Charles W. Wood. Social significance of mass production and mass distribution. Published by Simon and Schuster, New York City.





A Recipe for Safe Loans

(Continued from page 404)

as to the relative security risk between groups.

Whatever the condition may be, which is disclosed by such an analysis, it is evident that if proper diversification in economic and security factors cannot be obtained in the local loan outlet, then the percentage of deposit funds to be allotted for local loans must be restricted. It is also evident that regardless of the local loan demand, it is far better for the community and for the banker, to have a bank with a safe loan portfolio, rather than one which is vulnerable to adverse local conditions.

A third diversification is by size of loans. Although there are legal restrictions as to size, it is not infrequent to find a very large percentage of the loan dollars allotted to but few lines in number. If the economic and security factors of but a few of these should become impaired, the loss possibility in dollars may become so great as to place the capital position of the bank in a dangerous position. Actual losses thereon may eliminate all of the earnings for several years past. A size diversification may be readily obtained from the proof tape of the liability ledger and the items thereon segregated into size groups, indicating the number of accounts and the dollars involved in each size group. This method is similar to the one employed in many banks to obtain a size classification of checking accounts.

How to Measure Safety

THE determination of the safety factors involves the evaluation of the credit risk. The safety factor is relatively easy to determine on loans secured by collateral where the collateral itself can be readily evaluated as to market position. All that is necessary is an ample margin. However, even on this type of loan, great difficulties are encountered during periods of rapidly decreasing security values. A fixed policy of margin requirements, together with frequent valuations of collateral, will give the necessary information as to the safety factor. Where the collateral is difficult to evaluate, due to the absence of a good market thereon, other credit risk factors are involved practically similar in nature to those in unsecured loans. The safety factor of the unsecured loan is difficult to evaluate during periods of depressed business conditions, even though a large amount of credit information is available. It is almost impossible to evaluate, during such times, from the credit information contained in the files of many banks. It is a certainty, however, that the real value of a note is dependent upon its collectibility, and any credit information which indicates doubt as to the ability of the borrower to pay the note at maturity, reflects a doubt as to the safety factor. It must be borne in mind that, in order to produce a high rate of liquidity in the loan aggregate, the safety factor of the loans must be high. An analysis of the liquidity factor practically always indicates a concentration of low safety factors in the non-liquid loans.

Liquidity Comes First

THE acid test of a loan aggregate consists in the determination of its liquidity. From the standpoint of preparing a financial budget of deposit fund conversion, the general rule is:

"The greater the liquidity of loans, the lesser need be the primary and secondary reserve."

When there is rapid turnover of loans, the primary reserve is constantly replenished, making it unnecessary to draw upon the secondary reserve, excepting perhaps for seasonal declines in deposits or temporary extraordinary loan demands. However, if the turnover of loans becomes subnormal, or stagnant, a condition is apt to arise where the replenishing of the primary reserve absorbs all of the secondary reserve and even the bulk of the investment account. A bank then would be in a most unfavorable position and any further decline in deposits would result in suspension.

The turnover, or liquidity test of a loan aggregate is made through an analysis of the turnover rate of each loan line in the aggregate. The turnover, or liquidity rate of each loan line is mathematically determined through an analysis of the high and low position during a cycle of one year. The dollar reduction from high to low is then expressed as a percentage of the high. If the loan has been paid in full, the turnover rate is 100 per cent; if no reduction has been made, the rate is 0 per cent. A table is then prepared which indicates the number of loans and dollars involved in turnover rate groups. All loans with a subnormal turnover rate are regrouped in accordance with the nature of the business of the borrower, to throw light on the economic situation, and again regrouped in accordance with the nature of the security. This indicates in what groups economic and security dangers exist, and then also the safety factor of each such line is studied in detail. It will be found that the safety factor is in doubt on the majority of loans, evidencing subnormal turnover, with the exception of such loans secured by marketable collateral whose margin positions are still intact.

Segregate Poor Loans

BY the application of the foregoing methods of loan analysis, it is possible to segregate definitely all loans which require attention and specify the degree of attention which they require. With such definite knowledge of the problem, the situation is then susceptible to remedy through the application of intelligent and well directed effort in the correction of the loan position, thus removing it from the "required attention" class.

The development of an intensive method of loan analysis and loan control is feasible in any bank regardless of its size. It is done through the creation of the function of controller of loans. The essence of this is that the individual, or group of individuals, connected with this function, are entirely divorced from the making of loans, but are held responsible for the continuous follow-through of all loans after they have been made. To strengthen this function further, if the right kind of individual operates same, he may be given veto power on new loan applications. Since it is a control function, it must be independent, that is, the head of the function is a direct representative of the board of directors, or of one of its specialized committees dealing with the administration of the loan portfolio.

Seasonal fluctuations in the local loan demand can be obtained by charting the local loan position over a cycle of a year. A parallel chart of deposit fund availability is made. Seasonal secondary reserve requirements are based upon this study. Some banks are characterized by a heavy local loan demand during certain periods of the year, which demand is accompanied by a seasonal decline in deposits. A well-designed secondary reserve will meet this situation without the necessity of borrowing, or rediscounting, and without a market loss on secondary reserve liquidations. It may be more profitable for a bank to borrow money to meet such situations, but it is no longer fashionable for a small bank to indicate borrowed money on the published statement of its condition.

A Credit Paradox for Congress

(*Continued from page* 403)

operation affords no relief for the real estate situation and this situation is, admittedly, one of the most serious in current business conditions. The organization of some sort of real estate rediscount institution will certainly be pushed by powerful interests in both houses of the Congress. There is a group of Senators whose ideas are voiced by Senator Bulkley of Ohio, which proposes to handle the real estate frozen asset situation by authorizing the Federal land banks to discount real estate loans either rural or urban or even loans on stocks and bonds, the alternative being to set up a new credit pool or corporation along the lines of the War Finance Corporation. In either case the Federal Government would be called upon to finance the scheme and Senator Bulkley is willing to spend $2,000,000,000 on the proposition.

There is also President Hoover's project for the organization of an institution to finance home building which will be given prompt consideration not only with respect to its own merits but also as a possible adjunct to the more general real estate rediscount proposition. The President's proposed system of home building loan banks is a further extension of the rediscount principle in extending credit. The proposal is to establish twelve institutions, one in each Federal Reserve District, with an initial capital varying from $5,000,000 to $30,000,000 each. The banks are to be organized by building and loan associations, savings banks, farm loan banks and other banks handling home building real estate mortgages and the capital is to be subscribed by these institutions, the Government supplying whatever capital the latter fail to produce. The plan provides that these banks may issue bonds up to twelve times their capital. With the proceeds of the sale of these bonds the banks will discount the paper of the subscribing institutions secured by mortgage loans on real estate used for residential purposes. The loans to these institutions on their paper thus secured shall not exceed 50 per cent of the unpaid balance of unamortized or short term loans or 60 per cent of the unpaid balance of amortized or long term mortgages submitted as collateral; no loans shall be made on mortgages in default or on mortgages in excess of $15,000 each.

Would Expand as Needed

ASSUMING that a bank or building and loan association places an orginal long-term amortization loan on property up to 50 per cent of its assessed value such mortgage can be used as collateral for a loan from the discount institution of 60 per cent of the amount of the bank's advances or 30 per cent of the assessed value of the property, the proportion for short-term non-amortization loans being 50 per cent and 25 per cent respectively. These discount institutions or so-called banks would issue bonds as needed for the discount of this real estate paper and their capital could then be increased and the expansion continued indefinitely. The bonds would be secured by the notes of the borrowing institution supported by all their resources, the mortgages deposited as collateral, and the capital and other resources of the discounting institutions. The President proposes that the bonds shall be acceptable as security for governmental and postal deposits, but he does not propose that they be income tax free.

The whole plan is a modification of the principle of the Federal land banks. Its object is to afford various types of real estate mortgage institutions including banks, facilities for securing funds to enable them to assist in the revival of home construction in many parts of the country, which has been slowed up by a restricted credit situation.

The President expects not only to relieve pressure and strain on the institutions themselves in this manner but also to enable them to assist home owners now in trouble and above all to enable them to finance new con-

struction and thus contribute materially to a revival of residential construction with its great stimulation to increased employment.

The stimulation of business activity, and increased employment—this is the central idea in all these plans. It is the dominating idea of the entire session of Congress to the exclusion of almost everything else. There are questions of the increasing national deficit, of the dole or public relief for unemployment under some more euphonious name. There is the question of the further existence and operations of the Farm Board and that of the downed but not yet dead matter of the export debenture for farm products. All these questions are to be considered in only one light—that of their relation to the great problem of setting the wheels of industry again in motion.

Branch Banking Proposals

FOR banking legislation of a routine sort there is little prospect. Even in the matter of branch, group and chain banking which was so burning an issue a year and a half ago, there is a rather ominous quiet, possibly the lull before a storm. Senator Glass's "trial balloon" bill which is the basis of the work of his sub-committee provides for state-wide branch banking. As a result of hearings there seems to be some trend toward the belief that Comptroller Pole's proposition for "trade area" branches is preferable, if there is to be any extension of branch banking at all, and will be incorporated in the sub-committee bill. The whole subject is so controversial, has been so complicated by the great number of bank failures since the hearings were had, and there are so many political possibilities in it, that in view of the precarious political situation in both houses the subject is being approached with extreme care. Certain it is that when the subject is considered, as it probably will be early in the session in the bill to be offered by the Senate Finance committee, there will be an abundance of political fireworks in which the Federal Reserve, the Comptroller, state bank superintendents and all other bank control authorities will come in for criticism. There is much disposition to examine the present dual system of state and national banks with the divided system of control and it need not occasion great surprise if there should be an attempt at a sudden revolutionary overhauling of the entire banking system of the country. Beneath the present quiet surface of things there is a very strong feeling that something must be done to strengthen the country's banking system and stop bank failures. Several radical proposals are being considered, among them being one that would require all banks in the United States to become members of the Federal Reserve System. The truth is that members of Congress feel that while something must be done they are very uncertain as to what the situation demands. When once convinced of the advantages of a proposal the action of Congress will probably be swift and, if necessary, radical.

No Congress in many years has faced so many and such complicated problems in economics and finance as the one now in session. Probably no other Congress has ever been any more determined to do something toward solving its problems and with fewer definite ideas of how to do it. Two things seem certain: more credit; and more taxes.

Broader Eligibility

Chairman Glass of the Senate subcommittee on banking conducted an extensive inquiry among authorities of the Federal Reserve banks with reference to proposals that the rediscount eligibility provisions of the Federal Reserve Act be broadened. He found pronounced opposition existed against most of the suggested changes.

Reserves and Credit Control

(Continued from page 396)

serves and worked to easier credit conditions.

The importance of a plan to suit reserve requirements to credit conditions lies in the fact that since the reserves of individual banks are no longer the essential feature of preserving their liquidity it is necessary for the banks to maintain the Reserve System with funds proportional to the demands made upon it and to control credit. Under present reserve requirements this is not being done. Of course, in order to utilize the facilities of the Reserve System and maintain their individual liquidity individual member banks must be in the possession of sound assets readily convertible into cash and particularly assets eligible for rediscount at the Reserve banks.

The Federal Reserve committee points out that in 1928 and 1929 during the most extravagant phases of the stock market boom excessive credit demands were reflected partly in an unprecedented increase in the activity of bank deposits without any increase in their total volume the result being the development of unsound credit conditions without any increase in reserve requirements which would have put brakes on the development of these unsound conditions.

Between 1914 and 1931, the period covered by present reserve requirements, total net deposits of member banks increased from $7,500,000,000 to $32,000,000,000. Their present reserves against deposits are $2,900,000,000 whereas had the reserve requirements for national banks prior to 1914 been retained in the Reserve System the reserves required would have amounted to $4,400,000,000. The committee believes that this diminution of reserve requirements by 34 per cent is largely responsible for the expansion of member bank credit without a corresponding control by the Federal Reserve and that the failure of reserve requirements to reflect fundamental changes in the demand for funds and to operate in such a manner as to bring these changes under control became a major factor in the credit situation in the 1928-1929 boom. Conversely, had reserves risen in proportion to deposit activity they would have acted as a powerful restraint against unsound developments.

The new idea in reserve requirements is credit control. That certainly is a long way from the original idea of bank reserves but American banking has traveled a long way since 1914. There are objections to these fundamental changes in the reserve requirements in the Reserve System, the most notable, perhaps, being the innate objection of the old fashioned bankers to what at first seems to be a complicated system based upon new principles in banking. In the opinion of the Federal Reserve Committee these new principles are already in effect so far as member banks are concerned and all that remains in this revolution in the banking of the country is to apply these new principles with equity and to the best effect. In considering the committee's recommendations American bankers also have to consider a new idea in American banking—the control of credit through the control of bank reserves.

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

***Being a more or less personal talk between the* EDITOR *and the* READER**

"Heroes Unsung"

THE following communication which recently appeared in the newspaper the *News Leader* of Richmond, Va. needs no comment in presenting it to a reader audience of bankers:—

"Nearly all Americans are hero-worshippers. They throw away their hats and shout themselves hoarse at the mention of his name be it a quarterback that saves the game or a captain who saved a shipload of people.

"To my mind, right now we have among us some really great heroes, and their names and praise are going unsung. I refer to the officers and directors of the financial institutions (banks and trust companies) that have maneuvered their craft to the leeward of their financially distressed brothers and took over their load of depositors and saved them from financial ruin.

"In this day of hustle and bustle an old man that has his life savings swept away in a bank failure had better be dead, and in a great many cases he proceeds to be just that way. He not only loses his all, but his incentive to work and save goes, too, for he knows that he can never again have anything.

"To save a man from drowning is certainly not a more heroic feat than to save him from this fate, so that is why I believe these captains of finance should be appreciated and applauded as much as we do our other great heroes.

"There may be some people that will say that the poor, unfortunate depositors in a wrecked institution do not merit the dangerous risks that the other banker exposes his craft to, when he saves them, but I do.

"Occasionally you see officials and directors who are so yellow that when they see that their craft cannot weather the storm, they will draw out their own money and that of their relatives. They should be treated like they do busted bankers in China. Their depositors are especially entitled to all the help that real men can give them.

"Personally, I am not afraid of getting in a jam of that kind, for I pick out a bank to do business with just like I do a boat that I am going to take a trip on.

"I go to where the boats are. I look them over carefully. I find out about the experience and ability of the officers and crew. I never ship out with a young son or son-in-law in command. I have a look at her hull and figure the lines to see if she looks to be seaworthy for the contemplated trip. If these things are satisfactory to me, the fact that she is not all dolled up with fine paint and gold leaf signs do not count with me. Gold leaf signs on a bank window never did tell me a thing I wanted to know.

"Then, when I get aboard, or put my money in the bank, I am satisfied to proceed to enjoy the situation and never give it another thought.

"After knocking wood, I am pleased to say that I have never lost a cent in a bank failure or been in a shipwreck, but I certainly do take my hat off to the men who help save the depositors in banks that unfortunately become embarrassed.—Fred LeGate, Hoover, Va."

In an address entitled "Measured Service Charge," by H. J. Winn, cashier of the First National Bank, Greenville, S. C., before the Southern Bank Management Conference at Nashville, Mr. Winn gave the following analysis of the cost of a loan transaction:

Mr. Smith walks into the bank and says "Good morning, Mr. Banker." "How are you, Mr. Smith," says the banker. "I am delighted to see you; have a seat and tell me the news." Mr. Smith proceeds to tell you all about his physical ailments, and the health of his family. They discuss the weather, the crops, the roads, politics, religion, inflation, deflation, the boll weevil, prospective price of cotton, the League of Nations, and finally England's gold suspension. Mr. Smith then crosses his legs, and changes his chew of "Brown Mule" tobacco to the other side. At the same time he informs the banker that he wishes to borrow $15 for thirty days, pledging therefor gilt-edge security. Mr. Banker consents, calls up his assistant and orders proper papers to be drawn, including the collateral offered, which security consists of "one black horse mule named Bill, about eighteen years old; also one road cart bought of the Hard Luck Live Stock Company in 1914." The papers are signed, witnessed and probated. The interest on $15 for thirty days, at 8 per cent, amounts to ten cents. The cashier deducts the ten cents and pays Mr. Smith $14.90. After Mr. Smith is gone the bank proceeds to analyze the transaction to determine its profit and makes this list of costs: Chattel blank, five cents; note blank, one cent; revenue stamps, four cents; tickler sheet, three cents; probating, 25 cents; recording fees, 15 cents; drawing papers, 15 cents; exchange for cash, 10 cents; notice due, three cents; exchange on check sent in payment, ten cents; cancellation, 15 cents; mailing notice, three cents; total $1.09. Deducting the interest charged, ten cents, leaves a net loss of ninety-nine cents.

"This, of course, does not include the thirty minutes of valuable time taken from the officer. Neither does it take into consideration the bookkeeping, the salary of officer, rents, stationery, postage necessary to run a bank. In addition to these expenses the bank has to pay Federal tax, State tax, county tax, municipal tax, real estate tax, property tax, road tax, paving tax, regular school tax, special school tax, high school tax, capital stock tax, corporation tax, license tax, income tax, excess tax, examination tax, circulation tax, and finally dog tax.

"Now, about all that we can hope to live for is to see what is coming next."

A correspondent writes:

"We have noticed that in most of the statements published by the majority of banks in the United States the Balance Sheets have 'Resources and Liabilities' rather than 'Assets and Liabilities.' "

The standardization of certain banking practices has been an important part of the program of the Bank Management Commission during the past several years, but up to the present time no definite steps have been taken to establish a common form for bank statements. There has been some preliminary discussion of the necessity for such action, but the Commission's policy has been to take one step at a time and the task of standardizing bank statements remains to be done. The whole question of making bank statements more clear, accurate, and informative has received special study this year, and the point raised in the letter is one of many in connection with that problem.